THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

ANCHORSTONE

Anchorstone Holdings Limited
基石控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1592)

1. VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; 2. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; 3. RE-APPOINTMENT OF DIRECTORS; AND 4. NOTICE OF THE EGM

Financial adviser to the Company

華富建業企業融資
QUAM CAPITAL

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

Lego Corporate Finance Limited
力高企業融資有限公司

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

A letter from the Board is set out on pages 7 to 25 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 26 to 27 of this circular. A letter from the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 54 of this circular.

A notice convening the EGM to be held at Room 1301, 13/F, One Island South, 2 Heung Yip Road, Aberdeen, Hong Kong on Thursday, 16 November 2023 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is also enclosed with this circular. Such form of proxy is also published on the websites of the Stock Exchange **(http://www.hkexnews.hk)** and the Company **(http://www.anchorstone.com.hk)**.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same with the share registrar of the Company 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 less than 48 hours before the time appointed for the holding of the EGM (i.e. not later than 3:00 p.m. on Tuesday, 14 November 2023) or any adjournment thereof (as the case may be). 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 (as the case may be) should you so wish, but in such event the form of proxy shall be deemed to be revoked.

25 October 2023

CONTENTS

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

"Acquisition"	the acquisition of the Sale Shares pursuant to the terms and conditions of the Sale and Purchase Agreement
"Actual Profit"	actual consolidated net profit of the Target Group
"Adjusted Consideration"	the consideration as adjusted by the Adjustment (if any)
"Adjustment"	adjustment pursuant to the Sale and Purchase Agreement, details of which are set out in the paragraph headed "Profit Guarantee and Consideration Adjustment" in the letter from the Board of this circular
"Articles of Association"	second amended and restated articles of association of the Company
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day on which banks are generally open for business in Hong Kong (other than a Saturday, a Sunday, a public holiday or a day on which a tropical cyclone warning signal 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.)
"BVI"	British Virgin Islands
"Company"	Anchorstone Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the Sale and Purchase Agreement
"Completion Date"	the date falling within five (5) Business Days after fulfilment or waiver (if applicable) of the Conditions Precedent (or such other date as the Vendor and the Purchaser may mutually agree in writing) and the date on which Completion takes place
"Conditions Precedent"	conditions precedent to the Completion as set out under the paragraph headed "Conditions Precedent" in the letter from the Board of this circular

"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	HK$100,000,000, subject to the Adjustment
"Consideration Share(s)"	Shares to be allotted and issued by the Company to the Vendor (or as it may direct) at the Issue Price as settlement of the Consideration pursuant to the Sale and Purchase Agreement
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held at Room 1301, 13/F, One Island South, 2 Heung Yip Road, Aberdeen, Hong Kong on Thursday, 16 November 2023 at 3:00 p.m., for the Independent Shareholders and the Shareholders to consider and, if thought fit, pass ordinary resolutions to approve, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Acquisition and the issue of the Consideration Shares under the Specific Mandate, the Increase in Authorised Share Capital and the proposed re-appointment of Directors respectively, the notice of which is set out on pages EGM-1 to EGM-3 of this circular
"Enlarged Group"	the Group as enlarged by the Acquisition
"Group"	the Company and its subsidiaries
"Guaranteed Period"	the financial year ending 31 December 2023
"Guaranteed Period Consideration Shares"	588,235,294 Consideration Shares to be allotted and issued if the Guaranteed Profit is met for the Guaranteed Period
"Guaranteed Profit"	has the meaning ascribed to it under the paragraph headed "*Profit guarantee*" under the section headed "**Profit Guarantee and Consideration Adjustment**" in this circular
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Increase in Authorised Share Capital"	the proposed increase in the Company's authorised share capital from HK$30,000,000 divided into 3,000,000,000 Shares to HK$50,000,000 divided into 5,000,000,000 Shares by the creation of an additional 2,000,000,000 Shares
"Independent Board Committee"	the independent board committee of the Company, comprising all the independent non-executive Directors, established to advise the Independent Shareholders in relation to the Acquisition
"Independent Financial Adviser"	Lego Corporate Finance Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
"Independent Shareholders"	Shareholders other than Mr. Lui and his associates
"Independent Third Party"	third party independent of the Company and its connected persons
"Issue Price"	HK$0.085 per Share
"Latest Practicable Date"	19 October 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"Listing Committee"	has the meaning ascribed to it under the Listing Rules
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Lock-up Undertaking"	has the meaning ascribed to it under the section headed "**Lock-up Undertaking**" in this circular
"Long Stop Date"	31 December 2023 or such other date as may be agreed between the Vendor and the Purchaser in writing
"Mr. Lui"	Mr. Lui Yue Yun Gary (雷雨潤), an executive Director, the chairman of the Board, the chief executive officer of the Group and a controlling shareholder of the Company
"percentage ratio(s)"	has the meaning ascribed to it under the Listing Rules

"PMG China"	PMG (China) Limited (太平洋(中國)礦業有限公司), a company incorporated in Hong Kong with limited liability and is directly wholly-owned by the Target Company
"PRC"	the People's Republic of China, which shall for the purpose of this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	Pegasus Stone Limited, a company incorporated in the BVI with limited liability and is wholly-owned by the Company
"Review Report"	a review report to be issued by the auditors of the Purchaser
"Review Report Date"	the date of the relevant Review Report for the audited consolidated financial statements of the Target Group for the Guaranteed Period
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 4 September 2023 entered into among the Purchaser, the Vendor and the Vendor's Guarantor, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares
"Sale Shares"	100 shares of a par value of US$1.00 in the share capital of the Target Company, representing the entire issued share capital of the Target Company
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company (which expression shall, if and to the extent that the share capital of the Company has been sub-divided, consolidated or reorganised, mean the securities into which those shares have been sub-divided, consolidated or reorganised)
"Shareholder(s)"	holder(s) of the Share(s)
"Specific Mandate"	the specific mandate to be sought from the Independent Shareholders at the EGM to grant to the Board the authority for the allotment and issue of the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules

"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Target Company"	Pacific Mining Industry Limited (太平洋礦業有限公司), a company incorporated in the BVI with limited liability and is wholly-owned by the Vendor
"Target Group"	the Target Company and its subsidiaries, namely PMG China and Xiamen Yatai
"Target Group Accounts"	the consolidated audited financial statements of the Target Group comprising the consolidated audited statement of financial position of the Target Group as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023 and the consolidated audited statement of profit or loss and other comprehensive income of the Target Group for the three years ended 31 December 2022 and the six months ended 30 June 2023, including the notes thereto and together with the draft reports and other documents annexed thereto
"Valuation Report"	a valuation report prepared by the Valuer relating to the business and/or other assets (as the case may be) of the Target Group
"Value of Consideration Shares"	total value of the Consideration Shares then allotted and issued (as the case may be) based on the Issue Price, being approximately HK$50,000,000 in the event that the Consideration Shares are allotted and issued on the Completion Date only
"Valuer"	Greater China Appraisal Limited
"Vendor"	Pacific Marble & Granite Holdings Limited (太平洋石業集團有限公司), a company incorporated in Hong Kong with limited liability and is indirectly wholly-owned by the Vendor's Guarantor
"Vendor's Guarantee"	has the meaning ascribed to it under the section headed "**Guarantee**" in this circular
"Vendor's Guarantor"	Mr. Lui, a director and the ultimate beneficial owner of the Vendor
"Xiamen Yatai"	廈門亞太宏康石業有限公司 (Xiamen Yatai Hongkang Marble Limited*), a wholly foreign owned enterprise established in the PRC and is directly wholly-owned by PMG China and indirectly wholly-owned by the Target Company

"%" per cent.

* *For identification purpose only.*

The exchange rate adopted in this circular for illustration purpose only is RMB1.00 = HK$1.08.

Anchorstone Holdings Limited
基石控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1592)

Executive Directors:
Mr. Lui Yue Yun Gary *(Chairman)*
Mr. Lui Edwin Wing Yiu
Mr. Fung Wai Hang

Independent non-executive Directors:
Mr. Ko Tsz Kin
Mr. Lam Lap Sing
Mr. Wong Yue Fai

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Unit 1501–02, Delta House
3 On Yiu Street
Shatin
New Territories
Hong Kong

25 October 2023

To the Shareholders

Dear Sir or Madam,

1. VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE;
2. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
3. RE-APPOINTMENT OF DIRECTORS;
AND
4. NOTICE OF THE EGM

INTRODUCTION

Reference is made to the Company's announcement dated 4 September 2023 in relation to the proposed acquisition of the entire issued share capital of the Target Company.

On 4 September 2023 (after trading hours), the Vendor, the Vendor's Guarantor and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company, which holds Xiamen Yatai through PMG China. The Consideration for the Acquisition is HK$100,000,000 (subject to Adjustment), which shall be satisfied by the allotment and issue of the Consideration Shares at the Issue Price under the Specific Mandate to be sought by the Company at the EGM.

The purpose of this circular is to provide you with information regarding, among other things, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Acquisition and the issue of the Consideration Shares under the Specific Mandate, (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) financial information of the Group and the Target Group; (v) other information required under the Listing Rules; (vi) the Increase in Authorised Share Capital; (vii) re-appointment of the Directors; and (viii) a notice of the EGM.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out below:

Date: 4 September 2023

Parties: (i) The Vendor (as seller);

(ii) the Vendor's Guarantor (as guarantor); and

(iii) the Purchaser (as purchaser).

Subject Matter

The Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company.

Conditions Precedent

Completion is subject to and conditional upon the satisfaction or waiver (if applicable) of the following conditions:

(a) the Purchaser shall have been satisfied in its absolute discretion with the results of the due diligence review of the Target Group, including but not limited to the satisfaction of the legal, financial and business position and prospects of the Target Group;

(b) the Listing Committee of the Stock Exchange shall have granted or agreed to grant the approval for the listing of and permission to deal in the Consideration Shares;

(c) the Independent Shareholders shall have approved the Sale and Purchase Agreement and all transactions contemplated hereunder (including the issue of the Consideration Shares and other matters contemplated thereunder) at the EGM in accordance with the Listing Rules;

(d) the Target Group Accounts in such form and substance acceptable to the Purchaser shall have been delivered to the Purchaser to its absolute satisfaction;

(e) the Valuation Report showing the valuation to be not less than HK$100,000,000 in such form and substance acceptable to the Purchaser shall have been delivered to the Purchaser to its absolute satisfaction;

(f) the legal opinion from the legal advisers of the PRC in such form and substance acceptable to the Purchaser confirming, inter alia: (i) due establishment and shareholding structure of the subsidiaries of the Target Group established in the PRC; (ii) compliance of the Target Group's operation of its business and ownership of property interests (if any) with all the relevant PRC laws, rules and regulations; and (iii) such other matters as may be required by the Purchaser, shall have been delivered to the Purchaser to its absolute satisfaction;

(g) all other applicable laws, rules and regulations including but not limiting to the Listing Rules and/or the Hong Kong Code on Takeovers and Mergers for the transactions contemplated under the Sale and Purchase Agreement shall have been complied with by the Company, the Vendor, the Vendor's Guarantor and the Purchaser;

(h) the board and shareholders of the Vendor shall have approved the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder;

(i) the board of the Target Company shall have approved the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder;

(j) the board of each of the Company and the Purchaser shall have approved the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder;

(k) all requisite consents required to be obtained by the Company, the Vendor, the Vendor's Guarantor and the Purchaser in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder shall have been obtained;

(l) all outstanding loans and/or liabilities due and owing by the Target Company to the Vendor shall have been fully settled;

(m) it has not come to the attention of the Purchaser that the warranties given by the Vendor and the Vendor's Guarantor being inaccurate and incorrect in any respect on the date of the Sale and Purchase Agreement and on each date on which they are deemed repeated, and as if made on, the Completion Date; and

(n) it has not come to the attention of the Purchaser that any material adverse changes or effect (as set out in the Sale and Purchase Agreement) has occurred prior to the Completion Date or are likely to occur whether before the Completion Date.

As at the Latest Practicable Date, Conditions Precedent (h), (i) and (j) have been fulfilled.

The Vendor and the Purchaser may by agreement waive in whole or in part any of the Conditions Precedent (except Conditions Precedent (b), (c) and (g) to (k) above). In the event that any of the Conditions Precedents are deemed not to have been fulfilled or are not fulfilled or waived (if applicable), in each case, at or before 1:00 p.m. on the Long Stop Date, the Sale and Purchase Agreement and everything contained in it shall terminate and be null and void and of no further effect and no party to the Sale and Purchase Agreement shall have any liability to any other party, save in respect of any prior breaches of the Sale and Purchase Agreement.

Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration payable by the Purchaser for the Sale Shares is HK$100,000,000, subject to Adjustment. The maximum number of Consideration Shares to be allotted and issued under the Consideration of HK$100,000,000 is 1,176,470,588.

The Consideration shall be satisfied in the following manner:

(i) as to the sum of approximately HK$50,000,000 (representing one-half of the Consideration) to be settled by way of allotment and issue of 588,235,294 Consideration Shares by the Company to the Vendor (or as it may direct) on the Completion Date; and

(ii) as to the sum of approximately HK$50,000,000 (representing one-half of the Consideration), to be settled by way of allotment and issue of such number of Consideration Shares (the maximum number of which is 588,235,294) by the Company to the Vendor (or as it may direct) in accordance with the paragraph headed ''Profit Guarantee and Consideration Adjustment'' below.

In the event that the share capital of the Company has been sub-divided, consolidated or reorganised, the number of the Consideration Shares to be allotted and issued by the Company shall be adjusted accordingly.

BASIS OF THE CONSIDERATION

The Consideration was arrived at based on normal commercial terms after arm's length negotiation among the parties to the Sale and Purchase Agreement after taking into account, among others, the following:

(i) the market value of the equity interests of the Target Group based on a valuation on the Target Group of approximately HK$131,000,000 as at 30 April 2023 conducted by the Valuer under market approach;

(ii) the historical financial performance, business development and future prospect of the Target Group in the supply, installation and trading of marble and granite and other marble related business in the PRC;

(iii) the payment terms of the Consideration, which includes an adjustment mechanism depending on the achievement of the Guaranteed Profit by the Target Group; and

(iv) other reasons and benefits as described under the paragraph headed "REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT" below.

The valuation of the equity interests of the Target Group was conducted with reference to the Target Group's net income. The Directors (excluding Mr. Lui) consider that while the revenue and net income of the Target Group have shown significant variations in prior years, the Target Group has adopted a more aggressive business approach since 2020 (which includes signing contracts with customers) to secure a more stable and predictable long-term revenue stream in the future. In particular, among the outstanding contract sums of the Target Group of RMB60 million, the contract term is up to around 3 years. In that case, the revenue and net income for the six months ended 30 June 2023 as compared with the corresponding period in 2022 has become relatively steady, when compared with the fluctuations during prior years. Therefore, the Target Group's net income is a meaningful reference for valuation purpose (which is also a commonly used basis for valuation of a company).

The Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) believe that the Consideration and the Adjusted Consideration are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE CONSIDERATION SHARES AND THE ISSUE PRICE

The Consideration Shares represent (i) approximately 75.51% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 43.02% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (subject to Adjustment and assuming that there will be no change in the issued share capital of the Company other than the allotment and issue of Consideration Shares).

The Issue Price was arrived at after arm's length negotiation among the parties to the Sale and Purchase Agreement with reference to the recent market prices of Shares. The Issue Price represents:

(i) a premium of approximately 66.67% to the closing price of HK$0.051 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;

(ii) a premium of approximately 42.14% to the average of the closing price of HK$$0.0598 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Sale and Purchase Agreement;

(iii) a premium of approximately 41.67% to the average of the closing price of HK$0.06 per Share as quoted on the Stock Exchange for the ten trading days immediately prior to the date of the Sale and Purchase Agreement; and

(iv) a premium of approximately 63.46% to the closing price of HK$0.052 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) consider that the Issue Price is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The Consideration Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM. The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue. An application will be made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Consideration Shares.

Lock-Up Undertaking

The Vendor and the Vendor's Guarantor have jointly and severally, irrevocably and unconditionally, undertaken to the Purchaser that the Vendor (or its nominee) shall not and the Vendor's Guarantor shall procure the Vendor (or its nominee) not to, engage in any transaction which will affect the ownership of the Consideration Shares, including but not limited to (i) offer, lend, sell, contract to sell, pledge or grant any option to purchase, or otherwise transfer or dispose of any Consideration Shares, or (ii) enter into any swap or similar arrangement that transfers any of the economic risk of ownership of the Consideration Shares to another person (the "**Lock-up Undertaking**") for a period of six months commencing from the date of the allotment and issue of the relevant Consideration Shares.

For the avoidance of doubt, the Vendor (or its nominee) shall be entitled to other rights and interests of the Consideration Shares, including voting rights and the right to receive all dividends, distributions and other payments attached to the Consideration Shares, notwithstanding the Lock-up Undertaking.

Non-competition Undertaking

The Vendor and the Vendor's Guarantor have undertaken to the Purchaser that, at Completion, a deed of non-competition shall be executed by them in favour of the Purchaser and the Target Company in a form acceptable to the Purchaser in its absolute discretion.

Profit Guarantee and Consideration Adjustment

Profit guarantee

Pursuant to the Sale and Purchase Agreement, each of the Vendor and the Vendor's Guarantor undertakes to the Purchaser that the consolidated net profit (after taxation and excluding any profit (loss) deriving from activities not within the ordinary and usual course of business) of the Target Group shall not be less than HK$18,000,000 (the "**Guaranteed Profit**") for the Guaranteed Period.

In the event that the Actual Profit for the Guaranteed Period as verified by the Review Report equals or exceeds the Guaranteed Profit for the Guaranteed Period, no adjustment shall be made to the Consideration.

In the event that the Actual Profit for the Guaranteed Period equals or exceeds the Guaranteed Profit for such period, the Purchaser shall procure the Company to allot and issue the Guaranteed Period Consideration Shares to the Vendor (or as it may direct) within 14 Business Days after the Review Report Date.

Adjustment arrangement

In the event that the Actual Profit for the Guaranteed Period is less than the Guaranteed Profit for such period, the Consideration shall be reduced to the Adjusted Consideration as calculated in accordance with the following formula:

$$Y = C/B \times A$$

where A is the total Consideration in the sum of HK$100,000,000;

B is the Guaranteed Profit in the sum of HK$18,000,000;

C is the Actual Profit for the Guaranteed Period, provided that if the Target Group suffers an actual consolidated loss before tax for the Guaranteed Period, then the Actual Profit for the Guaranteed Period shall be deemed as zero; and

Y is the Adjusted Consideration.

In the event that the Adjusted Consideration equals or exceeds the Value of Consideration Shares, the Purchaser shall procure the Company to allot and issue such number of Consideration Shares (calculated by dividing the difference between the Adjusted Consideration and the Value of Consideration Shares by the Issue Price) to the Vendor (or as it may direct) within 14 Business Days after the Review Report Date.

In the event that the Adjusted Consideration is less than the Value of Consideration Shares, the Vendor shall pay to the Purchaser any shortfall between the Value of Consideration Shares and the Adjusted Consideration in cash within 14 Business Days after the Review Report Date.

For the avoidance of doubt, the Company shall not allot and issue the Consideration Shares in any other circumstances.

The Company shall comply with the relevant disclosure requirements on guaranteed profits in respect of a company acquired by the listed issuer's group from a connected person in accordance with Rule 14A.63 of the Listing Rules, including publication of announcement(s) and disclosure in its future annual report(s) of the outcome of the Guaranteed Profit and the actual performance of the Target Group for the Guaranteed Period, as and when appropriate.

Guarantee

The Vendor's Guarantor unconditionally and irrevocably guarantees to the Purchaser the due and punctual performance by the Vendor of its obligations under the Sale and Purchase Agreement and undertakes to indemnify and keep indemnified the Purchaser against all losses, damages, costs and expenses of whatsoever nature which the Purchaser may suffer or incur by reason of any default or unreasonable delay on the part of the Vendor in the performance of its obligations (the "**Vendor's Guarantee**"). If any of the obligations of the Vendor that are the subject of the Vendor's Guarantee ceases to be valid or enforceable (in whole or in part) on any ground whatsoever, the Vendor's Guarantor shall nevertheless be liable to the Purchaser in respect of the purported obligation or liability as if the same were fully valid and enforceable and the Vendor's Guarantor was the principal obligor in respect thereof. The Purchaser shall not be obliged to take any steps to enforce any rights or remedy against the Vendor before enforcing the Vendor's Guarantee. The Vendor's Guarantee is in addition to any other security available to the Purchaser as at the date of the Sale and Purchase Agreement and thereafter.

Completion

Completion shall take place on the Completion Date after the Conditions Precedent have been fulfilled or waived (if applicable) in accordance with the Sale and Purchase Agreement.

Upon Completion, the Purchaser will hold the entire issued capital of the Target Company. As a result, the Target Company, PMG China and Xiamen Yatai will become wholly-owned subsidiaries of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming that there will be no change in the issued share capital of the Company other than the allotment and issue of the relevant Consideration Shares, the effect on the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Completion; and (iii) immediately after issuance of all of the Consideration Shares are set forth below for illustrative purposes:

	As at the Latest Practicable Date		**Immediately after the Completion**		**Immediately after the issuance of all of the Consideration Shares**	
	Number of Shares	*Approximate Percentage*	*Number of Shares*	*Approximate Percentage*	*Number of Shares*	*Approximate Percentage*
Mr. Lui	560,000	0.04%	560,000	0.03%	560,000	0.02%
PMG Investments Limited *(Note 1)*	784,210,000	50.34%	784,210,000	36.54%	784,210,000	28.68%
The Vendor (or its nominee) *(Note 2)*	—	0%	588,235,294	27.41%	1,176,470,588	43.02%
Sub-total of Mr. Lui and his associates	784,770,000	50.37%	1,373,005,294	63.97%	1,961,240,588	71.72%
Other Shareholders	773,196,341	49.63%	773,196,341	36.03%	773,196,341	28.28%
Total *(Note 3)*	1,557,966,341	100%	2,146,201,635	100%	2,734,436,929	100%

Notes:

1. PMG Investments Limited is directly wholly-owned by Mr. Lui.

2. The Vendor is indirectly wholly-owned by Mr. Lui.

3. Percentage figures may not add up to the total due to rounding.

Based on the above effect on the shareholding structure of the Company, the allotment and issue of the Consideration Shares is not expected to result in a change of control of the Company.

INFORMATION ON THE GROUP AND THE PURCHASER

The Group is principally engaged in the stone sales and supply and installation of marble products in Hong Kong and Macau.

The Purchaser is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. The Purchaser is directly wholly-owned by the Company.

INFORMATION ON THE VENDOR AND THE VENDOR'S GUARANTOR

The Vendor is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. The Vendor is indirectly wholly-owned by the Vendor's Guarantor.

The Vendor's Guarantor is a director and the ultimate beneficial owner of the Vendor. The Vendor's Guarantor is also an executive Director, the chairman of the Board, the chief executive officer of the Group and a controlling shareholder of the Company.

INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the Vendor holds the entire issued share capital of the Target Company, which holds 100% equity interests in Xiamen Yatai through its wholly-owned subsidiary, PMG China.

Xiamen Yatai and PMG China are the major operating subsidiaries of the Target Group and are principally engaged in the supply, installation and trading of marble and granite and other marble related business in the PRC.

Set out below is the audited consolidated financial information of the Target Group for the two financial years ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023, respectively:

	For the year ended 31 December 2021	**For the year ended 31 December 2022**	**For the six months ended 30 June 2023**
	HK$ million	*HK$ million*	*HK$ million*
	(audited)	*(audited)*	*(audited)*
Net profit before tax	1.16	14.19	10.62
Net profit after tax	1.16	12.07	9.58

According to the audited consolidated financial information of the Target Group, as at 30 June 2023, the Target Group had consolidated net assets of approximately HK$13.78 million.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT

The Group is a leading building construction subcontractor in Hong Kong specialising primarily in the supply and installation of marble and granite for construction projects in Hong Kong and Macau. However, the overall performance of the Hong Kong and Macau construction industry in the recent years was not satisfactory under the impact of COVID-19, the uncertainty of the local property market and the increasing cost of building materials and construction labour costs.

Having considered the above and with the view to diversify and expand the geographical coverage of the principal business of the Group, the management of the Company intends to enter into the market for the supply and distribution of marble and granite products in the PRC. Pursuant to the deed of non-competition dated 11 June 2018 and given by Mr. Lui in favour of the Company, Mr. Lui, being the substantial shareholder of the Company, will not carry on or participate in any business which is or may be in competition with the business currently and from time to time engaged by the Group. In view of avoiding any competing business with each other, it was resolved that the Group will tap into the sales and distribution business of marble and granite products in the PRC through the Acquisition.

As the Target Group is involved in the supply, installation and trading of marble and granite and other marble related business in the PRC, the Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) consider that the Acquisition will open up the PRC market and will create synergy to the Group. Currently, the total contract sums of the Target Group were approximately RMB60,000,000 (equivalent to approximately HK$64,800,000). The Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) are of the view that entering into the PRC market by the Group will broaden the market of the Company, creating a significant improvement of the turnover and profitability to the Company.

Reference is made to the announcements of the Company dated 18 November 2022 and 30 June 2023 respectively, pursuant to which the parties had previously entered into a sale and purchase agreement in respect of the sale and purchase of the Sale Shares on 18 November 2022 (the "**Previous Agreement**"), which had subsequently lapsed on 30 June 2023. Since the signing of the Previous Agreement, the parties had endeavoured to ensure the fulfilment of the conditions precedent therein by the agreed long stop date, including conducting the due diligence review of the Target Group and preparing the information required for the circular (including the audited financial information of the Target Group for the period up to 31 October 2022 and the indebtedness statement of the Group) for the consideration and approval of the Independent Shareholders at the EGM. As the Target Group consists of private companies operating in the PRC which have their own daily business obligations and affairs to manage, it took time for the professional parties of the Company to liaise with and obtain from the Target Group the required information, documents and assistance for the due diligence and audit work. In light of the work to be done as mentioned above, additional time was required and the Company had to delay the despatch of the circular for several times and seek the agreement of the Vendor to extend the long stop date of the Previous Agreement from 28 February 2023 to 31 May 2023.

During this period, the market price of the Shares had started to decrease substantially from 17 March 2023 and the Vendor was concerned that the then issue price and the then number of the consideration shares would not reflect the circumstances at the time, and therefore, discussed with the Company to explore the possibility of revising the terms.

Taking into account that (i) the Vendor's Guarantor has expertise and experience in the business of the supply and distribution of marble and granite products in the PRC and thus it would be in the interests of the Company if he would be willing to continue to retain a management role in the Target Group after Completion; (ii) the due diligence on the Target Group was still ongoing as the Board considered that it would be in the interests of the Company to devote sufficient time to complete the due diligence process in order to be satisfied with the legal, financial and business position and prospects of the Target Group; and (iii) the audit on the Target Group had not been completed yet, the Company and the Vendor negotiated on the possibility of revising the terms to take into account the latest market conditions during mid-March to May 2023, instead of proceeding with the existing terms of the Previous Agreement immediately. In particular for the audit on the Target Group, the Company considered that the inclusion of the updated financial information of the Target Group for the year ended 31 December 2022 in the circular would assist the Independent Shareholders to consider and approve the Acquisition, given that the Independent Shareholders could have a clearer picture on the performance of the Target Group and whether the Target Group could have been able to reach the guaranteed profit for that year under the original terms of the Previous Agreement, and therefore, the Company had decided to update the audit work of the Target Group. However, the progress for the updated audit on the Target Group was further affected by the preparation of the annual results and annual report by the Company and the auditors during March and April 2023 and had taken more time than the Company had originally expected.

By the time the Company had almost completed its due diligence and audit work, it was already close to the extended long stop date of the Previous Agreement and the Company wished to seek the agreement of the Vendor to extend the long stop date of the Previous Agreement again. However, the Vendor had expressed that it was unwilling to further extend the long stop date of the Previous Agreement upon the existing terms, yet the parties had not been able to reach an agreement on any revision of the terms thereof at that time either. As the conditions precedent set out in the Previous Agreement had not been fulfilled on or prior to the agreed long stop date and the parties to the Previous Agreement had not agreed on any further extension of such long stop date thereafter, the Previous Agreement lapsed accordingly. Despite there being a time gap between the signing of the Previous Agreement on 18 November 2022 and the extended long stop date on 31 May 2023 as explained above, it was not the intention of the Company to deliberately delay the Previous Agreement in order to facilitate the Vendor in entering into the Sale and Purchase Agreement.

As mentioned in the announcement of the Company dated 30 June 2023, in spite of the lapse of the Previous Agreement, negotiations in relation to the proposed acquisition of the Target Company have been ongoing and the parties subsequently reached agreement on the current terms in the Sale and Purchase Agreement. The Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) have considered, among others, (i) that the Consideration represents a discount of approximately 23.7% to the valuation of the Target Group as at 30 April 2023 conducted by the Valuer and is therefore fair and reasonable; (ii) that the Issue Price represents a premium to the recent market price of the Shares; (iii) that the Vendor and the Vendor's Guarantor have undertaken a larger amount of Guaranteed Profit for the Guaranteed Period as compared to the Previous Agreement; (iv) that the settlement by allotment and issue of the Consideration Shares would allow the Company to minimise cash outflow; (v) that there is sufficient public float immediately after the issuance of all the Consideration Shares (assuming that there will be no other change in the issued share capital of the Company); and (vi) the reasons for and the benefits of entering into the Sale and Purchase Agreement as disclosed above. In this regard, the Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) believe that the current terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Although the Consideration Shares have almost doubled under the current terms of the Sale and Purchase Agreement as compared to the terms under the Previous Agreement, the Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) are of the view that apart from the greater potential dilution in public shareholding interest, the current terms of the Acquisition are more favourable to the Company than those of the Previous Agreement for the reasons and benefits mentioned above and such benefits would outweigh such potential dilution effect to the public Shareholders overall taken as a whole. In any event, the Company believes that it is the Independent Shareholders who could ultimately exercise their voting rights on the consideration and approval of the Acquisition at the EGM and make an informed decision accordingly based on the disclosures made in the announcement of the Company dated 4 September 2023 and this circular.

With regard to the Guaranteed Profit for the Guaranteed Period undertaken by the Vendor and the Vendor's Guarantor, although the audited net profit after tax of the Target Group for the six months ended 30 June 2023 was approximately HK$9.58 million, the Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) are of the view that such amount of Guaranteed Profit is fair and reasonable based on their review of the latest project schedule of the existing projects of the Target Group through due diligence review, and taking into account the business development and prospects of the Target Group in the supply, installation and trading of marble and granite and other marble related business in the PRC. In particular, it was noted that certain existing projects were still in the early stages in June 2023 and thus the profits recognised therefrom were limited. It is expected that more profits will be recognised from these existing projects during the remainder of 2023 based on the expected project schedule. The Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent

Board Committee in this circular) also consider that in the event that the Guaranteed Profit could not be met, such shortfall as calculated by the formula under the section headed "Profit Guarantee and Consideration Adjustment" will be compensated by the Vendor in cash, and is therefore fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As Mr. Lui has a material interest in the Acquisition, he has abstained from voting on the relevant Board resolution(s) approving, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Purchaser will hold the entire issued capital of the Target Company. As a result, the Target Company, PMG China and Xiamen Yatai will become wholly-owned subsidiaries of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular is prepared as if the Acquisition had been completed on 30 June 2023 to illustrate the effect of the Acquisition.

Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, the total assets of the Group would have increased from approximately HK$225.6 million to approximately HK$245.4 million on a pro forma basis; the total liabilities of the Group would have increased from approximately HK$163.6 million to approximately HK$171.9 million on a pro forma basis; and the net assets of the Group would have increased from approximately HK$62.0 million to approximately HK$73.5 million on a pro forma basis.

Earnings

According to the accountants' report of the Target Group as set out in Appendix II to this circular, the Target Group recorded an audited profit of approximately HK$1.16 million, approximately HK$12.07 million and approximately HK$9.58 million for the years ended 31 December 2021 and 31 December 2022 and for the six months ended 30 June 2023 respectively. Upon Completion, the entities comprising the Target Group will become subsidiaries of the Company and the financial results of the Target Group will be consolidated into the financial results of the Enlarged Group. The Company considers that the Acquisition will bring positive contribution to the earnings of the Enlarged Group but the quantification of such contribution will depend on the future performance of the Target Group.

Further details of the financial effect of the Acquisition together with the bases and assumptions taken into account in preparing such unaudited pro forma financial information of the Enlarged Group are set out in Appendix V to this circular.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios in respect of the Acquisition are more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification, announcement, circular and shareholder's approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Vendor is ultimately beneficially owned as to 100% by Mr. Lui, being an executive Director, the chairman of the Board, the chief executive officer of the Group and a controlling shareholder of the Company. Accordingly, the Vendor is an associate of Mr. Lui and a connected person of the Company. The Acquisition therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The existing authorised share capital of the Company is HK$30,000,000 divided into 3,000,000,000 Shares, of which 1,557,966,341 Shares are in issue and 1,442,033,659 Shares are authorised but unissued as at the Latest Practicable Date.

With the view to accommodate the future issue of new Shares (including but not limited to the proposed allotment and issue of 1,176,470,588 Consideration Shares under the Sale and Purchase Agreement) and to provide the Company with greater flexibility in fund raising by allotment and issue of Shares in the future as and when necessary, the Board proposes the Increase in Authorised Share Capital. The Board believes that the Increase in Authorised Share Capital is in the interests of the Company and the Shareholders as a whole.

Upon the Increase in Authorised Share Capital becoming effective and assuming that there will be no change in the issued share capital of the Company from the Latest Practicable Date up to the date of the EGM, the authorised share capital of the Company will be HK$50,000,000 divided into 5,000,000,000 Shares, with 1,557,966,341 Shares in issue and 3,442,033,659 Shares authorised but unissued. The new Shares authorised to be allotted and issued by the Company shall rank *pari passu* in all respects with the existing Shares upon issue. Save for the 1,176,470,588 Consideration Shares proposed to be allotted and issued in accordance with the Sale and Purchase Agreement, the Directors do not have any present intention of issuing any part of the increased authorised share capital of the Company with regard to the Increase in Authorised Share Capital as at the Latest Practicable Date.

The Increase in Authorised Share Capital is subject to the approval of the Shareholders by way of passing an ordinary resolution at the EGM.

RE-APPOINTMENT OF DIRECTORS

The Board currently comprises six Directors, of which three are executive Directors, namely Mr. Lui, Mr. Lui Edwin Wing Yiu and Mr. Fung Wai Hang; and three are independent non-executive Directors, namely Mr. Ko Tsz Kin, Mr. Lam Lap Sing and Mr. Wong Yue Fai.

Reference is made to the announcement of the Company dated 28 June 2023, pursuant to which Ms. Lui Natalie Po Wai and Mr. Nie Kin Kwok Kevin were proposed to be re-appointed by the Board, subject to the approval by the Shareholders at the EGM.

For the proposed re-appointment of Mr. Nie Kin Kwok Kevin as an independent non-executive Director, the Board and the nomination committee of the Company have considered the board diversity policy and corporate strategy of the Company, taking into account the skills and experience required for the overall operation of the Board, the background and other factors of Mr. Nie Kin Kwok Kevin. The Board and the nomination committee are of the view that, Mr. Nie Kin Kwok Kevin has the basic knowledge of the operation of a listed company with valuable business experience, knowledge, professionalism and work experience necessary to perform the duties of an independent non-executive Director, and has the ability to provide independent, fair and objective opinions on corporate affairs. Mr. Nie Kin Kwok Kevin will also promote diversity of the Board in a number of aspects, including age, cultural and educational background, professional experience, skills and knowledge. Mr. Nie Kin Kwok Kevin has confirmed his independence to the Company in accordance with Rule 3.13 of the Listing Rules. The Board has assessed and reviewed his independence and believes that he has satisfied the independence requirements. Therefore, his re-appointment as an independent non-executive Director is in the best interests of the Company and the Shareholders as a whole.

Details of the Directors proposed to be re-appointed at the EGM are set out in Appendix VIII to this circular.

EGM AND PROXY ARRANGEMENT

The Company will convene the EGM for the Independent Shareholders and the Shareholders to consider and, if thought fit, pass ordinary resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Acquisition and the issue of the Consideration Shares under the Specific Mandate, the Increase in Authorised Share Capital and the proposed re-appointment of Directors respectively.

In view of Mr. Lui's interest in the Acquisition, he and his associates (including PMG Investments Limited) are required to abstain from voting at the EGM on the resolution approving the same. As at the Latest Practicable Date, to the extent that the Directors are aware having made all reasonable enquiries, Mr. Liu and his associates hold 784,770,000 Shares, and they control or are entitled to exercise control over the voting rights in respect of their respective Shares. Save for the aforementioned and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder has a material interest in the Acquisition and is required to abstain from voting on the resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Acquisition and the issue of the Consideration Shares under the Specific Mandate at the EGM.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders has a material interest in the matters relating to the Increase in Authorised Share Capital and the re-appointment and re-election of Directors and is required to abstain from voting on the resolutions approving the Increase in Authorised Share Capital and the re-appointment of Directors at the EGM.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except for purely procedural or administrative matters. Accordingly, all the proposed resolutions will be put to vote by way of poll at the EGM. An announcement on the poll vote results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A notice convening the EGM to be held at Room 1301, 13/F, One Island South, 2 Heung Yip Road, Aberdeen, Hong Kong on Thursday, 16 November 2023 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is also enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same with the share registrar of the Company 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 less than 48 hours before the time appointed for the holding of the EGM (i.e. not later than 3:00 p.m. on Tuesday, 14 November 2023) or any adjournment thereof (as the case may be). 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 (as the case may be) should you so wish, but in such event the form of proxy shall be deemed to be revoked.

RECOMMENDATION

Having considered the above, the Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) consider that the terms of the Sale and Purchase Agreement are on normal commercial terms, are fair and reasonable and that the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding Mr. Lui but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular) recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

The Independent Financial Adviser, having taken into account the principal factors and reasons as set out in its letter, considers that the Sale and Purchase Agreement was entered into in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Financial Adviser recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser and its recommendation in relation thereto, considers that the Sale and Purchase Agreement was entered into in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable, and in the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

The Directors also recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Increase in Authorised Share Capital and the proposed re-appointment of Directors.

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.

GENERAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 26 to 27 of this circular, which contains its advice and recommendation to the Independent Shareholders, and the letter from the Independent Financial Adviser set out on pages 28 to 54 of this circular, which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders. Your attention is also drawn to the additional information set out in the appendices to this circular and the notice of the EGM.

Shareholders and potential investors of the Company should note that Completion is subject to the satisfaction or waiver (if applicable) of certain Conditions Precedent and the Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

Yours faithfully
For and on behalf of the Board
Anchorstone Holdings Limited
Fung Wai Hang
Executive Director and Company Secretary

The following is the text of a letter from the Independent Board Committee setting out its advice and recommendation to the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

Anchorstone Holdings Limited
基石控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1592)

25 October 2023

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

We refer to the circular of the Company dated 25 October 2023 (the "**Circular**") to the Shareholders, of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether, in our opinion, the Sale and Purchase Agreement was entered into in the ordinary and usual course of business of the Group, and the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned.

Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard. We wish to draw your attention to the letter from the Board set out on pages 7 to 25 of the Circular, and the letter from the Independent Financial Adviser to us and the Independent Shareholders set out on pages 28 to 54 of the Circular, which contains its advice and recommendation in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

Having taken into account the advice of the Independent Financial Adviser and its recommendation in relation thereto, we consider that the transactions contemplated under the Sale and Purchase Agreement are in the ordinary and usual course of business of the Company, the Sale and Purchase Agreement are entered into on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned.

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee
Mr. Ko Tsz Kin, Mr. Lam Lap Sing and Mr. Wong Yue Fai
Independent non-executive Directors

The following is the full text of the letter from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, which has been prepared for the purpose of inclusion in this Circular.

Lego Corporate Finance Limited
力高企業融資有限公司

25 October 2023

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

Dear Sirs and Madams,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 25 October 2023 (the "**Circular**"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Reference is made to the announcement of the Company dated 4 September 2023. On 4 September 2023 (after trading hours), the Vendor, the Vendor's Guarantor and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company, which holds Xiamen Yatai through its wholly-owned subsidiary, PMG China. The Consideration for the Acquisition is HK$100,000,000 (subject to Adjustment), which shall be satisfied by the allotment and issue of the Consideration Shares at the Issue Price under the Specific Mandate to be sought by the Company at the EGM.

After Completion, the Purchaser will hold the entire issued share capital of the Target Company. As a result, the Target Company, PMG China and Xiamen Yatai will become wholly-owned subsidiaries of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company.

The Consideration Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM. The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue. An application will be made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Consideration Shares.

The Consideration Shares represent (i) approximately 75.51% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 43.02% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (subject to Adjustment and assuming that there will be no change in the issued share capital of the Company other than the allotment and issue of Consideration Shares).

Reference is also made to the announcements of the Company dated 18 November 2022 and 30 June 2023, respectively, pursuant to which the Vendor, the Vendor's Guarantor and the Purchaser had previously entered into the Previous Agreement, which had subsequently lapsed on 30 June 2023. For further details of the Previous Agreement including but not limited to the background and terms thereof, please refer to the announcements of the Company dated 18 November 2022 and 30 June 2023, as well as the sub-section headed "Reasons for and benefits of entering into the Sale and Purchase Agreement" in the Letter from the Board.

As one or more of the applicable percentage ratios in respect of the Acquisition are more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification, announcement, circular and shareholder's approval requirements under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, the Vendor was ultimately beneficially owned as to 100% by Mr. Lui, being an executive Director, the chairman of the Board, the chief executive officer of the Group and a controlling shareholder of the Company. Accordingly, the Vendor is an associate of Mr. Lui and a connected person of the Company. The Acquisition therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, pass ordinary resolution(s) to approve, among others, the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Acquisition and the issue of the Consideration Shares under the Specific Mandate. As Mr. Lui has a material interest in the Acquisition, he and his associates (including PMG Investments Limited) are required to abstain from voting at the EGM on the resolution(s) approving the same.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as regards the terms of the Acquisition.

We, Lego Corporate Finance Limited, have been appointed by the Company as the Independent Financial Adviser in accordance with the requirements of the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. Our appointment has been approved by the Independent Board Committee.

During the past two years, Lego Corporate Finance Limited has been engaged to act as the independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to the entering into of the Previous Transaction by the Company, details of which are set out in, among others, the announcements of the Company dated 18 November 2022 and 30 June 2023. Save for the aforesaid engagement and the engagement in connection with the Acquisition, we had not been engaged by the Company for the provision of other services that would affect our independence. Apart from the normal professional fees for our services to the Company in connection with the engagements described above, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Group, the Vendor and the Vendor's Guarantor or any of their respective substantial shareholders, directors or chief executives, or of their respective associates that could reasonably be regarded as relevant to our independence. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition.

BASIS OF OUR ADVICE

In formulating our opinions and recommendations, we have reviewed, among others, the Sale and Purchase Agreement, the announcement of the Company dated 4 September 2023 in relation to the Acquisition, the annual reports of the Company for the financial year ended 31 December 2021 (the "**Annual Report 2021**") and the financial year ended 31 December 2022 (the "**Annual Report 2022**"), and the interim report of the Company for the six months ended 30 June 2023 (the "**Interim Report 2023**"). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; (ii) conducted verbal discussions with the Management regarding the terms of the Acquisition, the businesses and future outlook of the Group; and (iii) discussed the valuation methodologies, bases and assumptions adopted for the Valuation Report conducted by the Valuer. We have taken reasonable steps to ensure that such information and statements, and any representation made to us, which we have relied upon in formulating our opinions, are true, accurate and complete in all material respects as of the Latest Practicable Date and the Shareholders shall be notified of any material changes, if any, as soon as possible.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of and reasons for entering into the Acquisition, to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition. Except for its inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information on the Group

The Group is principally engaged in the stone sales and supply and installation of marble and granite for construction projects in Hong Kong and Macau.

Set out in Table 1 below is certain financial information of the Group for each of the three years ended 31 December 2022 as extracted from the Annual Report 2021 and the Annual Report 2022, and for each of the six months ended 30 June 2022 and 30 June 2023 respectively as extracted from the Interim Report 2023.

Table 1: Financial information of the Group

	For the six months ended 30 June		**For the year ended 31 December**		
	2023	**2022**	**2022**	**2021**	**2020**
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	27,053	54,757	91,686	91,942	170,348
Loss for the year attributable to owners of the Company	(3,590)	(1,836)	(44,407)	(46,749)	(34,099)

	As at 30 June 2023	As at 31 December 2022	2021	2020
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	1,568	2,284	3,727	2,869
Current assets	224,029	229,534	270,909	330,633
Current liabilities	(113,891)	(120,873)	(109,989)	(206,419)
Net current assets	110,138	108,661	160,920	124,214
Non-current liabilities	(49,681)	(57,330)	(81,625)	(3,090)
Net assets	62,025	53,615	83,022	123,993

For the year ended 31 December 2021

For the year ended 31 December 2021, the Group recorded revenue of approximately HK$91.9 million, representing a substantial decrease of approximately 46.0% as compared to that of approximately HK$170.3 million recorded for the previous year. Based on the Annual Report 2021, such decrease in revenue of the Group was primarily due to (i) the delay in certain construction projects undertaken by the Group; and (ii) the decline in the new tender activities during the year ended 31 December 2021.

For the year ended 31 December 2021, the Group recorded loss attributable to owners of the Company of approximately HK$46.7 million, widened by approximately 37.0% as compared to that of approximately HK$34.1 million for the preceding year. With reference to the Annual Report 2021, such widening in loss attributable to owners of the Company for the year ended 31 December 2021 was mainly due to (i) a decline in gross profit attributable to the further decline in revenue from contracts of the Group with customers; and (ii) an increase in impairment loss on trade and retention receivables and contract assets as a result of the then economic environment and other relevant business factors.

As at 31 December 2021, the Group recorded net current assets and net assets of approximate HK$160.9 million and approximately HK$83.0 million, respectively.

For the year ended 31 December 2022

For the year ended 31 December 2022, the Group recorded revenue of approximately HK$91.7 million, representing a marginal decrease of approximately 0.2% as compared to that of approximately HK$91.9 million recorded for the previous year. Based on the Annual Report 2022, such marginal decrease in revenue of the Group was primarily due to decrease in revenue from stones sales, which was partially offset by an increase in revenue from stone supply and installation services during the year ended 31 December 2022.

For the year ended 31 December 2022, the Group recorded loss attributable to owners of the Company of approximately HK$44.4 million, narrowed slightly by approximately 4.9% as compared to that of approximately HK$46.7 million for the preceding year. With reference to the Annual Report 2022, such narrowing in loss attributable to owners of the Company for the year ended 31 December 2022 was mainly due to (i) an increase in gross profit primarily attributable to the decline in cost of sales amid the aforesaid slight decrease in revenue; and (ii) a decrease in finance costs, partially offset by the nil recognition of a gain on disposal of subsidiaries for the year ended 31 December 2022, against the recognition of a gain on disposal of subsidiaries for the year ended 31 December 2021.

As at 31 December 2022, the Group recorded net current assets and net assets of approximate HK$108.7 million and approximately HK$53.6 million, respectively.

For the six months ended 30 June 2023

For the six months ended 30 June 2023, the Group recorded revenue of approximately HK$27.1 million, representing a decrease of approximately 50.6% as compared to that of approximately HK$54.8 million recorded for the six months ended 30 June 2022. Based on the Interim Report 2023, such decrease in revenue of the Group was primarily due to a substantial decrease in revenue from supply and installation services due to the much slower construction project work status as compared to that in the previous corresponding period, which was partially offset by an increase in revenue from stone sales during the six months ended 30 June 2023.

For the six months ended 30 June 2023, the Group recorded loss attributable to owners of the Company of approximately HK$3.6 million as compared to that of approximately HK$1.8 million for the six months ended 30 June 2022. With reference to the Interim Report 2023, such widening in loss attributable to owners of the Company for the six months ended 30 June 2023 was mainly due to (i) aforesaid period-over-period decrease in revenue; and (ii) the nil recognition of other income and other net gains for the six months, against the recognition of other income and other net gains for the previous corresponding period, which were partially offset by the nil recognition of impairment losses on contract assets, against the recognition of such loss for the previous corresponding period.

As at 30 June 2023, the Group recorded net current assets and net assets of approximate HK$110.1 million and approximately HK$62.0 million, respectively.

2. Information on the Target Group

The Target Company is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the Vendor held the entire issued share capital of the Target Company, which held 100% equity interests in Xiamen Yatai through its wholly-owned subsidiary, PMG China.

Xiamen Yatai and PMG China are the major operating subsidiaries of the Target Company and are principally engaged in the supply, installation and trading of marble and granite and other marble related business in the PRC.

Set out below in Table 2 is the consolidated financial information of the Target Group for the two financial years ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023, respectively.

Table 2: The consolidated financial information of the Target Group for the two financial years ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023, respectively

	For the year ended 31 December 2021 (audited) *HK$ million*	**For the year ended 31 December 2022** (audited) *HK$ million*	**For the six months ended 30 June 2023** (audited) *HK$ million*
Net profit before tax	1.16	14.19	10.62
Net profit after tax	1.16	12.07	9.58

As shown in Table 2 above, for the year ended 31 December 2022, the Target Group recorded net profit after tax of approximately HK$12.07 million, representing an increase of approximately 940.52% as compared to approximately HK$1.16 million for the year ended 31 December 2021. The year-on-year increase in the net profit after tax of the Target Group was mainly due to the year-on-year increase in revenue.

For the six months ended 30 June 2023, the Target Group recorded net profit after tax of approximately HK$9.58 million, representing an increase of approximately 35.50% as compared to that recorded for the preceding corresponding period. The period-over-period increase in the net profit after tax of the Target Group was mainly due to the period-over-period increase in revenue.

As at 30 June 2023, consolidated net assets of the Target Group amounted to approximately HK$13.78 million.

3. Reasons for and benefits of implementing the Acquisition

The Group is a building construction subcontractor in Hong Kong which has been engaged in the supply and installation of marble and granite for construction projects in Hong Kong and Macau for over 30 years. As advised by the Management, most of the stone supply and installation services and stone sales projects undertaken by the Group were significantly delayed in recent years as a result of, among others, the adverse impacts of the COVID-19 pandemic and the uncertainty of the local property market, leading to the generally declining performance of the Group. Accordingly, the Group intends to diversify and expand the geographical coverage of its principal business into the PRC.

In assessing the fairness and reasonableness of conducting the Acquisition, we have primarily considered (i) the recent development of the business of supply and installation of marble and granite of the Group; (ii) the future prospect of the business of supply and installation of marble and granite in the PRC which the Target Group is principally engaged; and (iii) the settlement method of allotting and issuing the Consideration Shares.

Recent development of the business of supply and installation of marble and granite of the Group

The previous persistence of the COVID-19 pandemic has caused interruptions over the general operations of the industry of supply and installation of marble and granite in Hong Kong including the supply of marble and granite as well as the work schedules of the Group's sub-contractors and suppliers. Although the COVID-19 pandemic situation has shown recovery in 2023, with reference to the Annual Report 2022, it is considered that the Hong Kong economy shall need time to recover and the performance of the local property market still has a lot of uncertainties, which may affect the future tending activities of the local industry of supply and installation of marble and granite in Hong Kong. According to the Interim Report 2023, among others, the slowing down of the local economic momentum in Hong Kong and the weak property market have imposed adverse impacts on the overall progress of the Group's supply and installation projects. For each of the two years ended 31 December 2022 and the six months ended 30 June 2023, the Group continuously recorded a year-on-year/ period-over-period decrease in the overall revenue and a loss attributable to owners of the Company.

In light of the prolonged economic downturn in Hong Kong, it is expected that the prospect the business of supply and installation of marble and granite of the Group, which focuses merely on the Hong Kong and Macau markets, would remain challenging and uncertain in the near future.

Future prospect of the business of supply and installation of marble and granite in the PRC

Our analysis in this sub-section would be primarily focused on the macroeconomic environment in the PRC as well as the recent development of the supply and installation of marble and granite business in the PRC which the Target Group is principally engaged.

(i) Macroeconomic environment in the PRC

Faced with, among others, the previous persistence of the COVID-19 pandemic, the national economy in the PRC generally managed to sustain the recovering momentum throughout 2022 and thus far in 2023. According to the figures issued by the National Bureau of Statistics of the PRC *(http://www.stats.gov.cn/)* in January and February 2023, gross domestic products of the PRC for 2022 amounted to approximately RMB121,020.7 billion, representing a year-on-year increase of approximately 3.0% as compared to that for 2021. In fact, it is noted that various primary economic indices including but not limited to industrial investment, investments in fixed assets and employment have shown improvements or consistent trends during 2022 as compared to that during 2021. As for 2023, according to the monthly reports regarding the national economy issued in October 2023 by the National Bureau of Statistics of the PRC, the national economy in the PRC sustained the momentum of recovery in the first three quarters of 2023 with production and supply increasing steadily, market demands improving gradually and employment and prices generally improved.

(ii) Development of the business of supply and installation of marble and granite business in the PRC in recent years

The overall performance of the construction materials industry in the PRC has been through peaks and valleys over the past two years in 2021 and 2022. According to an industry report published on 30 December 2021 by China Building Materials Federation ("**CBMF**") *(www.cbmf.org),* a national social organisation under the management of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, the prosperity index of the PRC construction materials industry, being an industrial index announced by CBMF from time to time for monitoring the operation trend and prosperity of the construction materials industry in the PRC, exhibited a year-on-year growth in 2021. Specifically, the overall market demand for marbles and granites in the PRC was generally positive during 2021. According to the information published in September 2022 by 中國建材信息總網 (the "**Building Materials Information Network of the PRC***") *(http://www.cbminfo.com/)*, an online information platform with a wide range of users including the local government, the total building materials plates output of the PRC enterprises of above-designated size was approximately 1.12 billion square meters during 2021, representing an increase of 22.0% from that for 2020. In particular, the outputs of marble plates and granite plates for 2021 exhibited respective year-on-year growths of approximately 14.7% and approximately 26.7%, being more significant than the respective corresponding year-on-year growths achieved in 2020. For 2022, affected by the overall fluctuating property market and the ongoing COVID-19 pandemic in the PRC, overall performance of the PRC construction materials industry has been fluctuating. According to the reports published by CBMF in November and December 2022, the prosperity index of the PRC construction materials industry has been fluctuating throughout 2022.

In respect of 2023, the construction materials industry in the PRC has been generally showing signs of recovery as compared to 2022. According to the relevant industry reports published by CMBF on 30 March 2023, 22 April 2023 and 21 June 2023, respectively, since the resumption of work and production of the companies after the Chinese New Year, prosperity of the PRC construction materials industry started to pick up gradually and the relevant prosperity index rebounded to the prosperity range in March 2023. From April to June 2023, as continuously stimulated by the "guaranteed delivery of properties* (保交樓)" housing policy in the PRC as first introduced in July 2022, details of which are elaborated below in this sub-section, the growth in completed construction area of real estate accelerated and accordingly has stimulated the relevant demand in the PRC construction material industry. Based on the relevant industry reports published by CMBF on 25 July 2023, 21 August 2023 and 20 September 2023, affected by seasonal factors such as high temperature and rainfalls, activities within construction market and accordingly construction material market in July 2023 have slowed down and the relevant prosperity index fell off the prosperity range. The relevant prosperity index then achieved a turnaround in August 2023 and rebounded back to the prosperity range in September 2023. According to the report, policies have been introduced to alleviate the financial pressure on construction projects and accelerate the formation of the demand in the PRC. It is suggested that the optimisation and adjustments of the real estate policies introduced in the PRC are conducive to improving the operating environment of the real estate industry chain, whereby linkage effects will be created to further support the operation of the construction materials industry in the future.

On the other hand, it is noted that the PRC government has been making tremendous efforts to stabilise the property market and stimulate the demand for the construction market in the future. With reference to the "14th Five-Year Construction Industry Development Plan" issued in January 2022 by the Ministry of Housing and Urban-Rural Development of the PRC *(https://www.mohurd.gov.cn/)*, it shall be an ongoing national target to enhance the industrial production efficiency and build a strong domestic construction market by, among others, accelerating the promotion of international contracting projects under the Belt and Road initiative and optimising the relevant bidding system for contracting projects. In July 2022, the "guaranteed delivery of properties* (保交樓)" housing policy was first introduced during the meeting held by the Political Bureau of the Central Committee of the PRC, pursuant to which "housing properties are for accommodation, not for speculation''. It was emphasised that such housing policy shall continue to be the core principle of the real estate industry development in the PRC and various provincial supporting policies shall be established from time to time by the central government to help stimulate the confidence in, and enhance the stability of the overall real estate market in the PRC, thereby potentially imposing positive impacts on the demand for construction materials in the PRC. Further, it was mentioned at the meeting of the Political Bureau of the PRC Central Committee convened on 24 July 2023 that, among others, the PRC government shall adjust and optimise the real estate policies, increase the construction and supply of affordable housing, and actively promote the transformation of urban villages in order to better support the improved housing demand and promote the healthy development of the real estate market in the PRC.

Accordingly, despite the impacts of the fluctuating property market on the overall construction materials industry in 2022, taking into account (i) the general recovery in the PRC economy; (ii) the signs of recovery of the construction materials market thus far in 2023; and (iii) the ongoing national intentions as well as the underlying supporting policies to build a strong domestic construction market and enhance the stability of the real estate market in the PRC, it is expected that the prospect of business of supply and installation of marble and granite business in the PRC would be generally justifiable.

Settlement of the Consideration by allotment and issue of the Consideration Shares

Pursuant to the Sale and Purchase Agreement, the Consideration shall be satisfied by way of allotment and issue of the Consideration Shares by stages subject to the Adjustments, details of which are set out in the sub-section headed ''Profit guarantee and Consideration adjustment'' in the Letter from the Board.

With reference to the Annual Report 2022, considering, among others, the net loss incurred by the Group for the year ended 31 December 2022, the then overdue current bank borrowings as well as the then cash and cash equivalent balance of the Group as at 31 December 2022, and the requirements for the approvals from the relevant banks on any further draw down of bank facilities by the Group since 20 November 2020, the then auditors of the Company had expressed its view on the existence of material uncertainty which might cast significant doubt about the Group's ability to continue as a going concern. Based on the Interim Report 2023, certain prevailing conditions have also indicated the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

As such, by settling the Consideration by way of allotment and issue of the Consideration, no cash outlay would be required from the Group, thereby easing its financial pressure, providing it with a higher level of flexibility to allocate its resources for other uses and reducing its risk of insolvency. Also, as further analysed in the section headed "4.2.3 The profit guarantee arrangements and the Adjustment" below in this letter, the Adjustment arrangements subject to the financial performance of the Target Group during the Guaranteed Period are in place to safeguard the interest of the Company.

Accordingly, considering the uncertainties surrounding the markets of supply and installation of marble and granite in Hong Kong and Macau which the Group is principally operated in, the potentially justifiable prospect of the aforesaid market in the PRC as well as the recent profitable performance of the Target Group, we are of the view that the Acquisition, which would require no cash outlay from the Company, would help diversify the geographical business coverage and income stream of, as well as bring positive financial impacts to the Group, and therefore is in the interests of the Company and the Independent Shareholders as a whole.

4. Principal terms of the Acquisition and the transactions contemplated thereunder (including the Specific Mandate)

On 4 September 2023 (after trading hours), the Vendor, the Vendor's Guarantor and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares at the Consideration of HK$100,000,000 (subject to Adjustments). The Consideration shall be satisfied by allotment and issue of the Consideration Shares.

4.1. Determination of the Consideration

With reference to the Letter from the Board, the initial Consideration of HK$100,000,000 was arrived at based on normal commercial terms after arm's length negotiations among the parties to the Sale and Purchase Agreement after taking into account, among others, the market value of the equity interests of the Target Group based on a valuation on the Target Group as at 30 April 2023 conducted by the Valuer.

In assessing the fairness and reasonableness of the determination of the Consideration, we have primarily taken into account the appraised value (the "**Appraised Value**") of the equity interests of the Target Group as at 30 April 2023 (the "**Valuation Date**") based on the valuation conducted by the Valuer (the "**Valuation**"). Details of the relevant Valuation Report are set out in Appendix VI to the Circular.

For the purpose of our assessment, we have reviewed the Valuation Report and conducted interviews with the Valuer regarding, among others, its experience, independence and the principal bases and assumptions adopted therein. Based on our review of the relevant information provided by the Valuer as well as the independent research conducted from the public domain, the Valuer is a professional service firm with an establishment period of approximately 25 years which provides, among others, valuation services on companies, business, real estate, and intangible, financial and industrial assets, and possesses experience in valuing market value of equity interests in private enterprises relating to notifiable transactions of other listed companies in Hong Kong. In particular, it is noted that the team of staff responsible for reporting the Valuation Report includes a senior member with over 10 years of experience in, among others, business valuation and equity analysis. The Valuer has confirmed its independence from the Group, the Target Group, the Vendor, the Vendor's Guarantor and their respective connected persons as at the Latest Practicable Date. The Valuer has further confirmed that all relevant material information, including the bases and assumptions adopted in arriving at the opinion, are set out in the Valuation Report and there are no other material relevant information or representations relating to the Target Group as provided or made by the Company to the Valuer not having been included therein. Upon review of the terms of engagement letter of the Valuer with the Company in respect of the Valuation Report, we consider that the scope of work is appropriate to the opinion required to be given, and we are not aware of any limitation of the scope of work which might have an adverse impact over the degree of assurance given by the Valuer in the Valuation Report.

During our review, we noted that the Valuation was conducted based on the key assumptions that, among others, there would be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions as well as the current taxation law in the regions and countries where the Target Group are located and carrying on its businesses. In addition, among others, the Valuer assumed that all relevant legal approvals, business certificates and licenses for the normal course of operation have been formally obtained, in good standing and no additional costs or fees are needed to procure such items during the application. As advised by the Valuer, the abovementioned assumptions are in line with market practice.

In conducting the Valuation, we were given to understand that among the three commonly adopted valuation approaches, namely the market approach, income approach and asset approach, the Valuer has adopted the market approach taking into account of the availability of identifiable publicly traded companies engaged in the same or similar lines of business as the Target Group, which facilitates a meaningful comparison and provides inputs for determining the underlying multiples. As advised by the Valuer, given that the value of the equity interests under income approach would be determined based on, among others, projected revenue, operating costs and risk-adjusted discount rate which could not be easily verified or reasonably justified, income approach is considered to be inappropriate for the purpose of the Valuation. Also, asset approach is considered to be inappropriate as the future economic benefits of the equity interests of the Target Group as a whole may not be reliably reflected. Under the market approach, it is noted that relative valuation using the price-to-earnings ratio ("**P/E ratios**") has been adopted. Upon enquiry with the Valuer, we learnt that as compared with other ratios such as price-to-book and price-to-sales ratios, the P/E ratio, which is defined as the company's market capitalisation to its net profit as at a specific date, is suitable for companies that can generate net profits such as the Target Group whereby earning is the primary determinant of the value of its equity interest and hence, serves as a better alternative for comparison purpose under the Valuation. In light of the above, we concur with the views of the Valuer that the adoptions of the market approach and the P/E ratios are fair and reasonable for the purpose of the Valuation.

We have discussed with the Valuer regarding the selection of criteria for identifying comparables and noted that in arriving at the Appraised Value, the Valuer has initially made reference to the P/E ratios of the companies comparable to the Target Group (the "**Target Group Comparables**"), which were identified based on the criteria that (i) such companies were publicly listed in Hong Kong and/or the PRC; (ii) more than 50% of the revenue of such companies was attributable to the trading of stones and/or building decoration materials in the PRC for the respective latest financial years; (iii) such companies' shares had active trading volumes on the stock exchanges in the PRC and/or Hong Kong; and (iv) the principal business locations of such companies were in the PRC as at the Valuation Date. In choosing the locations of listing of Hong Kong and the PRC, the source of capital and the place of operation of the Target Group have been considered by the Valuer. Given that the business operation and the source of capital of the Target Group are mainly from Hong Kong and the PRC, selection criteria of comparables include locations of listing of Hong Kong and the PRC. We have, in this regard, conducted research on a non-exhaustive basis and noticed that the same locations of listing (i.e. Hong Kong and the PRC) have been adopted as a criteria by valuers when selecting comparables for valuation of target companies with principal business in the PRC acquired or disposed of by other listed companies in Hong Kong. In respect of the selection criteria of companies with major revenue being contributed from trading of stones and/or building decoration materials in the PRC, due to the lack of companies with the identical business operations to those of the Target Group, being principally engaged in the trading of marbles and granite which are considered as stones and are commonly used as home decoration materials to apply into flooring, wall, countertops, etc., selection criteria were extended to the substitutes of marbles and granite for similar applications such as flooring, wall, tiles, board materials for renovation. As the trading of stones and/or building decoration materials in the PRC possesses similar business nature in terms of target customers, applications, industry, economic and business risks and rewards as that of the Target Group, we consider such selection criteria appropriate.

Based on our review of the relevant workings of the Valuation and discussions with the Valuer, the initial P/E ratios of the Target Group Comparable were then adjusted after taking into account of the size differences between the Target Group, being a group of private companies, and the Target Group Comparables which are in turn listed companies. The aforesaid size adjustments were made by adopting the formula suggested in the latest edition of "The Cost of Capital Navigator" by Kroll which, as confirmed by the Valuer, represents one of the most authoritative sources commonly adopted for valuation purpose which provides company-level inputs to estimate size premiums. As the value of the Target Group as implied by the Valuation is in the lowest decile of size premium table, the size premium of 4.83% is considered to be appropriate for being adopted in the formula. As the value of the Target Group is far below the market capitalisation of the Target Group Comparables, it is noted that the respective P/E ratios of the Target Group Comparables were adjusted downward subject to their respective size differences with the Target Group in accordance with the studies performed by Kroll. We have, in this regard, conducted research on a non-exhaustive basis and noticed that under the valuations performed for the notifiable transactions of other listed companies in Hong Kong, size adjustments pursuant to the studies of Kroll had been made to reflect the size difference to the then appraised values of the target companies, which were significantly deviated from the then average market capitalisations of the adopted comparables.

The initial implied equity value of the Target Group was then obtained based on the median of the aforesaid adjusted P/E ratios of the Target Group Comparables of 15 and the net profits of the Target Group in the amount of approximately HK$10,353,000 (after excluding the non-recurring other gain resulted from the movement of the exchange rate) for the trailing 12 months from 1 May 2022 to 30 April 2023 as at the Valuation Date. Despite the Target Group has a relatively short track record and a limited number of customers, taking into account that (i) by referencing to, for illustration purpose only, the annualised revenue of approximately HK$44.3 million for the year ending 31 December 2023, there has been an increasing trend in the annual revenue of the Target Group from 2021 to 2023 notwithstanding the previous global COVID-19 pandemic; (ii) as analysed above in the previous section of this letter, the PRC construction materials market has been showing recovery signs thus far in 2023 and supportive policies have been consistently implemented by the PRC government to stabilise the real estate market in the future; (iii) the selection criteria adopted by the Valuer in obtaining the Target Group Comparables are considered to be appropriate as explained above, whereby (a) the listing locations of Hong Kong and the PRC have been adopted after considering the business operations and the source of capital of the Target Group and based on our independent research, such practice conforms to the market practice; and (b) the principal businesses of trading of stones and/or building decoration materials in the PRC have been adopted due to the lack of companies identified to have fulfilled other selection criteria while engaged in the identical principal businesses as the Target Group (i.e. specifically related to marbles and granites etc.), and that marbles and granites are considered as stones and have similar applications, and accordingly trading of stones and/or building decoration materials in the PRC are considered to possess similar business nature in terms of target customers, applications, industry, economic and business risks and rewards as that of the Target Group; and (iv) downward adjustments have been made to the initial P/E ratios of the Target Group Comparables to reflect the size difference between such comparables and the Target Group with reference to the studies of Kroll, which conforms to the market practice, we consider that the reference made to the median of the adjusted P/E ratios by the Valuer in obtaining the initial implied equity value of the Target Group is fair and reasonable.

The implied equity value of the Target Group was then further subject to (i) a control premium, taking into account the premium an investor is willing to pay in addition to a marketable minority equity value to obtain controlling interests in a business subject; and (ii) a marketability discount, taking into account that stocks of private companies are usually worth less than that of public companies as the ownership interests are generally not readily marketable. Based on our review of the relevant calculations and materials, the aforesaid control premium adopted in the Valuation was determined with reference to "Mergerstat — Review" which is a database widely used for valuation as published by Business Valuation Resources, LLC. *(https://www.bvresources.com/)*, a publisher of auditable market data, news, research and expert opinion as well as a provider of valuation-related training programs with over 25 years of establishment. On the other hand, the aforesaid marketability discount adopted in the Valuation was determined with reference to the latest edition of "Stout Restricted Stock Study" which, based on our research conducted from the public domain, is a widely adopted research published by Business Valuation Resources, LLC.. As confirmed by the Valuer, the consideration of the control premium and the marketability discount with reference to the respective sources is a common market practice adopted by the valuation industry. As at the Valuation Date, the resulted implied enterprise values with respect to 100% equity interests of the Target Group amounted to approximately HK$131,000,000.

Based on the above, we consider that the bases and methodologies adopted in arriving at the Appraised Values are fair and reasonable.

Accordingly, considering that (i) the Consideration of approximately HK$100,000,000 represents a discount of approximately 23.7% to the Appraised Value as at 30 April 2023 derived from the Valuation, which in our view is fair and reasonable; (ii) the profit guarantee arrangements and consideration adjustments under the Sale and Purchase Agreement which, as further analysed in the section below headed "4.2.3 The profit guarantee arrangements and the Adjustment" in this letter, are in the interests of the Company and the Independent Shareholders as a whole; and (iii) the reasons for and benefits of entering into the Sale and Purchase Agreement as analysed above, we are of the view that the Consideration is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

4.2. Settlement by the allotment and issue of the Consideration Shares

The Consideration Shares represent (i) approximately 75.51% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 43.02% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (subject to Adjustment and assuming that there will be no change in the issued share capital of the Company other than the allotment and issue of Consideration Shares).

4.2.1. Assessment of the Issue Price

The Issue Price of HK$0.085 per Share represents:

(i) a premium of approximately 66.67% over the closing price of HK$0.051 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement (the "**Last Closing Price**");

(ii) a premium of approximately 42.14% over the average of the closing price of HK$0.0598 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Sale and Purchase Agreement (the "**5-Day Average Last Closing Price**");

(iii) a premium of approximately 41.67% over the average of the closing price of HK$0.06 per Share as quoted on the Stock Exchange for the ten trading days immediately prior to the date of the Sale and Purchase Agreement; and

(iv) a premium of approximately 63.46% over the closing price of HK$0.052 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

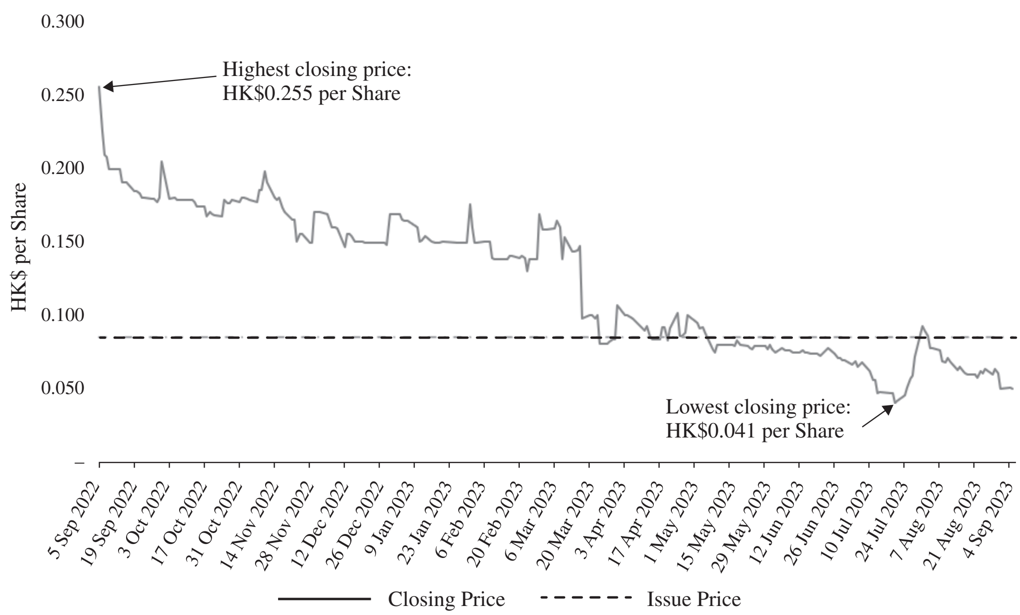
As disclosed in the Letter from the Board, the Issue Price was arrived at after arm's length negotiations among the parties to the Sale and Purchase Agreement with reference to the recent market prices of the Shares.

In assessing the fairness and reasonableness of the Issue Price, we have primarily made references to, among others, (i) the historical performance of the Share price; (ii) the historical trading liquidity of the Shares, and (iii) the comparison with other comparable transactions in the market, details of which are set out below respectively.

(i) Analysis of the historical Share price performance

Chart 1 below sets out the daily closing price of the Shares on the Stock Exchange for the period from 5 September 2022 up to and including the date of the Sale and Purchase Agreement (the "**Review Period**").

Chart 1: Daily closing price of the Shares during the Review Period



Source: the official website of the Stock Exchange (www.hkex.com.hk)

As illustrated above, closing prices of the Shares ranged from the lowest of HK$0.041 per Share on 20 July 2023 to the highest of HK$0.255 per Share on 5 September 2022, with an average closing price of approximately HK$0.123 per Share during the Review Period. Accordingly, the Issue Price of HK$0.085 per Share represents (i) a premium of approximately 107.32% over the lowest closing price of the Shares; (ii) a discount of approximately 66.67% to the highest closing price of the Shares, and (iii) a discount of approximately 30.89% to the average closing price of the Shares during the Review Period.

The closing price of the Shares generally exhibited a declining trend throughout the Review Period. After attaining the peak of HK$0.255 per Share on 5 September 2022, being the first day of the Review Period, closing price of the Shares had been fluctuating downward and reached the trough of HK$0.041 on 20 July 2023. Since then, closing price of the Shares had rebounded temporarily and been increasing gradually until it reached HK$0.093 on 31 July 2023, upon which it had been fluctuating downward again towards the end of the Review Period. On 28 July 2023, the Company published an announcement in relation to, among others, the unusual price movement of the Shares on the Stock Exchange on 28 July 2023 according to which, at such relevant time, (i) there was no assurance that the Acquisition would eventually be consummated, and the terms and conditions thereof were yet to be finalised; and (ii) the Board had been notified by Mr. Lui of his disposal of certain Shares on the market through PMG Investment Limited. As advised by the Management, save for those matters set out in such announcement, the Management is not aware of any other matters that may have caused the aforesaid increasing price movement of the Shares from mid-July 2023 up to the end of July 2023. On the other hand, it is noted that since 8 May 2023, save for the period from 31 July 2023 to 2 August 2023 in which the closing price of the Shares had been decreasing as described above, the Shares had been trading at a discount to the Issue Price towards the end of the Review Period.

(ii) Historical trading liquidity of the Shares

Set out below in Table 3 are details of the average daily statistics of the trading volume of the Shares for each month during the Review Period.

Table 3: Average daily trading volume of the Shares

	Average daily trading volume *(Approximate number of Shares) (Note 1)*	**Percentage of average daily trading volume over total number of issued Shares** *(Approximate %) (Note 2)*
2022		
September (from 5 September 2022)	1,632,632	0.12
October	92,000	0.01
November	160,227	0.01
December	420,500	0.03
2023		
January	198,889	0.01
February	144,500	0.01
March	4,056,735	0.30
April	3,964,412	0.27
May	1,818,571	0.12
June	833,571	0.06
July	7,457,854	0.48
August	5,408,478	0.35
September (up to and including the date of the Sale and Purchase Agreement)	11,545,000	0.74

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Computed by dividing the monthly trading volumes of the Shares by the total number of trading days of the respective corresponding months/periods.

2. Computed by dividing the average daily trading volumes of the Shares by the total number of Shares in issue as at the end of the respective corresponding months/periods.

3. Figures are subject to rounding.

As illustrated in the above table, trading liquidity of the Shares was generally thin during the Review Period, with the average daily trading volumes of the Shares having accounted for a range from approximately 0.01% to approximately 0.74% of the total number of Shares in issue as at the end of the relevant month/period.

(iii) Comparison with comparable transactions

In assessing the fairness and reasonableness of the Issue Price, we have also made reference to other comparable acquisitions involving issue of consideration shares as initially announced by companies listed on the Stock Exchange during the Review Period, excluding those issues involving the triggering of general offer obligations or applications for whitewash waiver or share consolidations or corporate restructuring which, in our view are different from the Company's circumstances and the structure of the Acquisition. We consider that the adopted Review Period is reasonably recent and sufficient for providing a general reference to the market practice for the purpose of our assessment.

On a best-effort basis, we have identified an exhaustive list of 26 comparable issues (the "**Comparable Issues**") having met the aforesaid selection criteria. It is worth noting that the underlying issuers of the Comparable Issues may or may not be identical to the Company in terms of principal activities, market capitalisations, profitability, operations and financial positions, and that the circumstances leading to the Comparable Issues to issue shares may differ from that of the Company under the Acquisition, and we consider it to be one of the appropriate bases for assessing the fairness and reasonableness of the Issue Price. Set out below in Table 4 are the details of the Comparable Issues:

Table 4: A summary of the Comparable Issues

Date of the initial announcement	Company name (stock code)	Premium/ (discount) of the issue price over/ (to) the closing price per share on the date of relevant agreement/the last trading day *(Approximate)*	Premium/ (discount) of the issue price over/ (to) the average closing price per share for the last five consecutive trading days up to and including the date of the relevant agreement/the last trading day *(Approximate)*	Lock-up period with reference to the date of issue of the underlying consideration shares
27 August 2023	XPeng Inc. (9868.HK)	(1.7%)	0.0%	24 months *(Note 1)*
7 July 2023	Tongguan Gold Group Limited (340.HK)	(16.7%)	(18.0%)	N/A
29 May 2023	Huili Resources (Group) Limited (1303.HK)	(12.3%)	(5.3%)	N/A
5 May 2023	Asia Energy Logistics Group Limited (351.HK)	(12.6%)	(9.8%)	N/A
26 April 2023	Sino-life Group Limited (8296.HK)	0.00%	(0.83%)	N/A
21 April 2023	Prosperous Printing Company Limited (8385.HK)	17.0%	11.6%	N/A
10 April 2023	Bojun Education Company Limited (1758.HK)	226.9% *(Note 2)*	224.4% *(Note 2)*	N/A
30 March 2023	BExcellent Group Holdings Limited (1775.HK)	102.5% *(Note 2)*	110.0% *(Note 2)*	12 months
28 March 2023	EPS Creative Health Technology Group Limited (3860.HK)	5.3%	6.4%	N/A
20 March 2023	State Energy Group International Assets Holdings Limited (918.HK)	(7.8%)	(2.1%)	N/A
17 March 2023	JBM (Healthcare) Limited (2161.HK)	(5.6%)	0.7%	N/A
16 March 2023	Crypto Flow Technology Limited (8198.HK)	(2.3%)	(8.5%)	N/A
15 February 2023	Goldway Education Group Limited (8160.HK)	(1.8%)	(10.0%)	N/A
13 February 2023	Hatcher Group Limited (8365.HK)	(9.1%)	(8.2%)	N/A
6 February 2023	China Health Group Limited (673.HK)	(19.3%)	(13.5%)	N/A
27 January 2023	Global New Material International Holdings Limited (6616.HK)	59.4% *(Note 2)*	68.0% *(Note 2)*	N/A
13 January 2023	Simplicity Holding Limited (8367.HK)	(13.3%)	(10.9%)	Not less than 12 months *(Note 1)*
19 December 2022	CASH Financial Services Group Limited (510.HK) & Celestial Asia Securities Holdings Limited (1049.HK)	(7.6%)	(7.6%)	N/A
25 November 2022	Value Convergence Holdings Limited (821.HK)	(0.4%)	(0.2%)	N/A
21 November 2022	Ernest Borel Holdings Limited (1856.HK)	18.2%	20.4%	18 months

Date of the initial announcement	Company name (stock code)	Premium/ (discount) of the issue price over/ (to) the closing price per share on the date of relevant agreement/the last trading day *(Approximate)*	Premium/ (discount) of the issue price over/ (to) the average closing price per share for the last five consecutive trading days up to and including the date of the relevant agreement/the last trading day *(Approximate)*	Lock-up period with reference to the date of issue of the underlying consideration shares
21 November 2022	First Service Holding Limited (2107.HK)	7.9%	4.0%	36 months
7 November 2022	China Wantian Holdings Limited (1854.HK)	(5.9%)	(4.0%)	N/A
25 October 2022	BExcellent Group Holdings Limited (1775.HK)	81.8% *(Note 2)*	81.4% *(Note 2)*	12 months
30 September 2022	EC Healthcare (2138.HK)	5.1%	(0.1%)	6 months
27 September 2022	Mos House Group Limited (1653.HK)	(16.7%)	(16.7%)	Not less than 12 months *(Note 1)*
14 September 2022	Smart Globe Holdings Limited (1481.HK)	13.6%	12.6%	N/A
Minimum		**(19.3%)**	**(18.0%)**	
Maximum		**18.2%**	**20.4%**	
Average		**(3.0)%**	**(2.7%)**	
The Company		**66.7%**	**42.1%**	**6 months**

Source: The official website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Based on our best understanding with reference to the relevant published announcement(s) in relation to the Comparable Issues.

2. The corresponding figures of these Comparable Issues (the "**Outlier Comparable Issues(s)**") were excluded from the analysis because they, as compared with those of the other Comparable Issues, appear to be the outliers and the inclusion of them may inappropriately skew the overall results.

3. Figures are subject to rounding.

As illustrated in the Table 4 above, the underlying issue prices of 15 out of 22 Comparable Issues (excluding the Outlier Comparable Issues) were set at a discount to the respective closing prices on the respective dates of the relevant agreements or last trading days. Further, the issue prices of the Comparable Issues (excluding the Outlier Comparable Issues) represent a range from a maximum discount of approximately 19.3% to a premium of approximately 18.2%, with an average of a discount of approximately 3.0%. Therefore, the premium of the Issue Price over the Last Closing Price of approximately 66.7% is more favourable than the average of a discount of the relevant Comparable Issues.

On the other hand, the underlying issue prices of 15 out of 22 Comparable Issues (excluding the Outlier Comparable Issues) were set at a discount to the respective average closing prices for the last five consecutive trading days up to and including the respective dates of the relevant agreements or last trading days. Further, the issue prices of the Comparable Issues (excluding the Outlier Comparable Issues) represent a range from a maximum discount of approximately 18.0% to a premium of approximately 20.4%, with an average of a discount of approximately 2.7%. Therefore, the premium of the Issue Price over the 5-Day Average Last Closing Price of approximately 42.1% is more favourable than the average of a discount of the relevant Comparable Issues.

4.2.2. The Lock-Up Undertaking

Pursuant to the Sale and Purchase Agreement, the Vendor and the Vendor's Guarantor have jointly and severally, irrevocably and unconditionally provided the Lock-up Undertaking to the Purchaser for a period of six months commencing from the date of allotment and issue of the relevant Consideration Shares. Further details of the Lock-Up Undertaking are set out in the section headed "Lock-Up Undertaking" in the Letter from the Board.

As illustrated in Table 4 above and to the best of our understanding, the underlying vendors under eight out of 26 Comparable Issues have provided similar undertakings to the purchasers after the respective issues of the consideration shares, and the duration of such undertaking ranges from six months to 36 months from the respective dates of issue of consideration shares. Accordingly, the provision of the Lock-Up Undertaking conforms to the market practice and the duration of six months from the date of issue of the Consideration Shares falls within the range of the relevant Comparable Issues. Considering the above and that the Lock-Up Arrangements would potentially reduce any immediate adverse impacts of the market price of the Shares arising from, transfer of the Shares by the Vendor, we are of the view that the Lock-Up Undertaking is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

4.2.3. The profit guarantee arrangements and the Adjustment

Pursuant to the Sale and Purchase Agreement, each of the Vendor and the Vendor's Guarantor undertakes to the Purchaser that the consolidated net profit (after taxation and excluding any profit (loss) deriving from activities not within the ordinary and usual course of business) of the Target Group shall not be less than the Guaranteed Profit of HK$18,000,000 for the Guaranteed Period.

Under the profit guarantee arrangements, the amount of the Consideration and the issue of the Consideration Shares would be subject to the fulfilment of the Guaranteed Profit during the Guaranteed Period. For further details, please refer to the section headed "Profit guarantee and Consideration adjustment" in the Letter from the Board. Among others, in the event that the Actual Profit for the Guaranteed Period is less than the Guaranteed Profit for such period, the Consideration will be adjusted in proportion to the fulfilment of the Guaranteed Profit. In the event that the Adjusted Consideration is less than the Value of Consideration Shares, the Vendor shall pay to the Purchaser such shortfall in cash within 14 Business Days after the Review Report Date.

With reference to the section headed "2. Information on the Target Group" above in this letter, the audited net profit after tax of the Target Group for the six months ended 30 June 2023 amounted to approximately HK$9,580,000. On an annualised basis, the net profits after tax of the Target Group is expected to reach approximately HK$19,160,000 for the year ending 31 December 2023, which has exceeded the Guaranteed Profit of HK$18,000,000 for the Guaranteed Period. According to the Letter from the Board, the total contract sums of the Target Group amounted to approximately RMB60,000,000 (equivalent to approximately HK$64,800,000). Further, the Management advised that certain existing projects of the Target Group were still in the early stages in June 2023 and thus the profits recognised therefrom were limited, and it is expected that more profits will be recognised from these existing projects during the remainder of 2023 based on the expected project schedule. We have, in this regard, reviewed the relevant contracts, tender documents as well as the relevant estimated income schedule.

Accordingly, despite the Target Group currently has a limited number of customers, taking into account (i) the expected net profits after tax of the Target Group for the year ending 31 December 2023, which is computed on an annualised basis with reference to the audited net profits after tax of the Target Group for the six months ended 30 June 2023, has exceeded the Guaranteed Profit for the Guaranteed Period; (ii) certain existing projects of the Target Group were still in the early stage in June 2023 and accordingly the profits recognised therefrom were limited, and more profits are expected to be recognised during the remainder of 2023; (iii) the generally justifiable prospect of Target Company, being the business of supply and installation and trading of marble and granite in the PRC, as discussed above and the year-over-year growth in the net profit after tax of the Target Group for the year ended 31

December 2022; (iv) the contracts secured by the Target Group to date in support of the anticipated delivery of income in the year ending 31 December 2023; (v) the Group would be compensated the shortfall between the Adjusted Consideration and Value of Consideration Shares in cash in the event that the Guaranteed Profit is not achieved, we are of the view that the profit guarantee arrangements would help safeguard the position of the Purchaser and are in the interests of the Company and the Independent Shareholders as a whole.

Conclusion

Accordingly, taking into consideration (i) the Issue Price of HK$0.085 per Share represents a premium over each of the Last Closing Price, the 5-Day Average Last Closing Price, the 10-Day Average Last Closing Price and the closing price of the Shares as at the Latest Practicable Date, whereas on average the issue price represents a discount to each of the relevant last closing price and the relevant 5-day average last closing price of the Comparable Issues; (ii) the overall declining trend of the closing price of the Shares during the Review Period; particularly, save for the period from 31 July 2023 to 2 August 2023 as analysed above, the closing prices of the Shares had been trading at a discount to the Issue Price since 8 May 2023 towards the end of the Review Period; (iii) the thin trading liquidity of the Shares during the Review Period; (iv) as opposed to the majority of the Comparable Issues, Lock-Up Undertaking is in place under the terms of the Sale and Purchase Agreement which shall help reduce the price fluctuations of the Shares and hence is favourable to the Group; and (v) the profit guarantee arrangements and mechanism for Adjustment are in place to safeguard the position of the Group, we are of the view that the determination of the Issue Price of HK$0.085 per Share is fair and reasonable.

In view of the above, we are of the view that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

5. Potential dilution in public shareholding interest

As depicted by the shareholding table under the section headed "Effect on the shareholding structure of the Company" in the Letter from the Board, assuming that there will be no change in the issued share capital of the Company other than the allotment and issue of the relevant Consideration Shares, shareholding interests of other public Shareholders would be diluted from approximately 49.63% as at the Latest Practicable Date to (i) approximately 36.03% immediately after Completion; and (ii) approximately 28.28% immediately after issuance of all of the Consideration Shares.

In view of the (i) reasons for and benefits for the implementing the Acquisition as discussed in the section headed "3. Reasons for and benefits of implementing the Acquisition" of this letter; (ii) the terms of the Acquisition are fair and reasonable; and

(iii) the potential financial impacts of the Acquisition on the Group as discussed below, we are of the view that the aforesaid level of dilution to the shareholding interests of the Independent Shareholders are justifiable.

6. Financial effects of the Acquisition

After Completion, the Purchaser will hold the entire issued share capital of the Target Company. As a result, the Target Company, PMG China and Xiamen Yatai will become wholly-owned subsidiaries of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company.

When assessing the financial impacts of the Acquisition and the transactions contemplated thereunder (including the Specific Mandate), we have primarily taken into account the following aspects:

6.1 Earnings

According to the Annual Report 2022, the Group recorded a loss for the year attributable to owners of the Company of approximately HK$44.4 million for the year ended 31 December 2022. With reference to the accountants' report of the Target Group as set out in Appendix II to the Circular, the Target Group recorded audited profit of approximately HK$1.16 million and approximately HK$12.07 million for the year ended 31 December 2021 and the year ended 31 December 2022, respectively. Upon Completion, the entities comprising the Target Group will become subsidiaries of the Company and the financial results of the Target Group will be consolidated into the financial results of the Enlarged Group. Accordingly, considering the recent profitable track record of the Target Group and the generally justifiable prospect of the Target Company as discussed above, it is expected that the Acquisition will bring positive impacts on the earnings of the Enlarged Group.

6.2 Assets and liabilities

According to the Interim Report 2023, total assets and total liabilities of the Group as at 30 June 2023 amounted to approximately HK$225.6 million and approximately HK$163.6 million, respectively, and the net assets of the Group as at 30 June 2023 amounted to approximately HK$62.0 million. With reference to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to the Circular, assuming Completion had been taken place on 30 June 2023, it is expected that as at 30 June 2023, total assets of the Group would have increased to approximately HK$245.4 million, total liabilities of the Group would have increased to approximately HK$171.9 million, and net assets of the Group would have increased to approximately HK$73.5 million.

Shareholders should note that the above analyses are for illustrative purpose only and do not purport to represent the financial position of the Group upon the Completion.

RECOMMENDATIONS

Having considered the above principal factors and reasons including the potential financial impacts on the Group thereof, we are of the view that the Acquisition was entered into in the ordinary and usual course of business of the Group, and that the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed for approving the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Acquisition and the issue of the Consideration Shares under the Specific Mandate at the EGM.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited

Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the accounting and investment banking industries.

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022, and for the six months ended 30 June 2023 are disclosed in the following documents which have been published on the websites of the Stock Exchange (**http://www.hkexnews.hk**) and the Company (**http://www.anchorstone.com.hk**):

- annual report of the Company for the year ended 31 December 2020 published on 26 April 2021 (pages 79 to 137);
- annual report of the Company for the year ended 31 December 2021 published on 28 April 2022 (pages 83 to 143);
- annual report of the Company for the year ended 31 December 2022 published on 27 April 2023 (pages 83 to 147); and
- interim report of the Company for the six months ended 30 June 2023 published on 19 September 2023 (pages 12 to 28).

2. INDEBTEDNESS STATEMENT

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

	HK$'000
Bank loans — secured and guaranteed	23,966
Loans from directors — unsecured and unguaranteed	52,359
Lease liabilities — secured and unguaranteed	655

The Enlarged Group's guaranteed bank loans were guaranteed by the Enlarged Group's subsidiaries.

Save as aforesaid, and apart from the intra-group liabilities, the Enlarged Group did not have any debt securities issued and outstanding, any authorised or otherwise created but unissued, term loans, other borrowings, indebtedness in nature of borrowings including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, debentures, mortgages, charges, recognised lease liabilities, which are either guaranteed, unguaranteed, secured, or unsecured, or other material contingent liabilities or guarantees outstanding at the close of business on 31 August 2023.

3. WORKING CAPITAL STATEMENT

The Directors, after due and careful consideration, are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's financial resources, including internally generated funds and presently available credit facilities, the Enlarged Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in the annual report of the Company for the year ended 31 December 2022 and the interim report of the Company for the six months ended 30 June 2023, the Directors confirmed that there has been no material adverse change in the financial or trading position 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.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the stone sales and supply and installation of marble products in Hong Kong and Macau. The Group, through its operating subsidiaries in Hong Kong, is a leading and well-established subcontractor in Hong Kong specialising primarily in supply and installation of marble and granite for construction projects, with an operation history of over 25 years.

As at the Latest Practicable Date, the Company had no intention to dispose or scale down any of its existing principal businesses after Completion and it was expected that the stone sales and supply and installation of marble products would remain as the principal business of the Group.

According to the annual report of the Company for the year ended 31 December 2022, the revenue of the Group amounted to approximately HK$91.7 million, the gross profit amounted to approximately HK$14.9 million, loss before income tax amounted to approximately HK$44.4 million and the loss attributable to owners of the Company amounted to approximately HK$44.4 million. For the year ended 31 December 2022, the revenue of stone sales and supply and installation of marble products amounted to approximately HK$7.3 million and HK$84.4 million, respectively.

(i) Stone sales

The Group makes stone sales to various customers in Hong Kong and Macau. In the previous years, the Group also made sales to the United States of America. The Group's customers for stone sales are mainly the main contractors and developers in Hong Kong. No installation services are required.

(ii) Supply and installation of marble products

The Group is a leading building construction subcontractor in Hong Kong. It specialises primarily in the supply and installation of marble and granite for construction projects in Hong Kong and Macau. The Group undertakes marble and granite works for a wide range of building and property types in Hong Kong, including commercial buildings, residential buildings, hotels, and public infrastructures. In general, its works form part of the main construction and development contracts of its customers. As at the Latest Practicable Date, this business segment contributed to the main source of revenue of the Group, and a majority of the revenue attributed to the customers located in Hong Kong.

The overall performance of the Hong Kong and Macau construction industry in the recent years was not satisfactory under the impact of the COVID-19 pandemic, the uncertainty of the local property market and the increasing cost of building materials and construction labour costs.

As disclosed in the section headed "REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT" in the letter from the Board of this circular, having considered the above and with the view to diversify and expand the geographical coverage of the principal business of the Group, the management of the Company intends to enter into the market for the supply and distribution of marble and granite products in the PRC. Pursuant to the deed of non-competition dated 11 June 2018 and given by Mr. Lui in favour of the Company, Mr. Lui, being the substantial shareholder of the Company, will not carry on or participate in any business which is or may be in competition with the business currently and from time to time engaged by the Group. In view of avoiding any competing business with each other, it was resolved that the Group will tap into the sales and distribution business of marble and granite products in the PRC through the Acquisition. As the Target Group is involved in the supply and distribution of marble and granite and other marble related business in the PRC, the Directors consider that the Acquisition will open up the PRC market and will create synergy to the Group. Currently, the total contract sums of the Target Group were approximately RMB60 million. The Directors are of the view that entering into the PRC market by the Group will broaden the market of the Company, creating a significant improvement of the turnover and profitability to the Company.

In this regard, the Directors consider that the Acquisition is in line with the Group's business strategy and it represents an attractive investment opportunity of the Group to expand in the business with growth potential.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF PACIFIC MINING INDUSTRY LIMITED TO THE DIRECTORS OF ANCHORSTONE HOLDINGS LIMITED

Introduction

We report on the historical financial information of Pacific Mining Industry Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-37, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2020, 2021 and 2022 and 30 June 2023, the Target Company's financial position as at 31 December 2020, 2021 and 2022 and 30 June 2023 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the three years ended 31 December 2022 and the six-month period ended 30 June 2023 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-37 forms an integral part of this report, which has been prepared for inclusion in the circular of Anchorstone Holdings Limited (the "**Company**") dated 25 October 2023 (the "**Circular**") in connection with the proposed very substantial acquisition and connected transaction in relation to acquisition of the entire issued share capital of the Target Company involving the issue of consideration shares.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Company is included, and such information is prepared based on accounting policies materiality consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical 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 the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2020, 2021 and 2022 and 30 June 2023, the Target Company's financial position as at 31 December 2020, 2021 and 2022 and 30 June 2023 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2022 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out on in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We concluded our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Internal Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid or declared by the Target Company in respect of the Relevant Periods.

No historical financial statements for the Target Company

No financial statements have been prepared for the Target Company since its date of incorporation.

CL Partners CPA Limited
Certified Public Accountants
Hong Kong
25 October 2023

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by CL Partners CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollars ("**HK$**"), while the functional currency of the Company is also HK$, and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2020	**2021**	**2022**	**2022**	**2023**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*6*	—	3,787	38,708	18,683	22,159
Cost of sales		—	(2,308)	(22,289)	(9,928)	(10,954)
Gross profit		—	1,479	16,419	8,755	11,205
Other income, gains and losses	*7*	—	—	166	—	(130)
Administrative expenses		(24)	(321)	(2,400)	(1,298)	(457)
(Loss)/profit before taxation	*8*	(24)	1,158	14,185	7,457	10,618
Income tax expense	*9*	—	—	(2,116)	(388)	(1,035)
(Loss)/profit for the year/period		(24)	1,158	12,069	7,069	9,583
Other comprehensive (expense)/income:						
Item that may be subsequently reclassified to profit or loss:						
Exchange differences on translation of foreign operations		(192)	(110)	(176)	156	(377)
Total comprehensive (expense)/income for the year/period		(216)	1,048	11,893	7,225	9,206

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
		2020	2021	2022	2023
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current asset					
Property, plant and equipment	*13*	—	—	—	—
Current assets					
Trade and retention receivables	*14*	—	—	4,476	1,103
Contract assets	*20*	—	—	3,014	5,409
Prepayments	*15*	—	—	3	232
Amount due from immediate holding company	*16*	1	1	1	1
Amount due from a related company	*16*	—	—	—	314
Amount due from a director	*16*	—	—	5,189	15,047
Bank balances and cash	*17*	149	153	179	143
		150	154	12,862	22,249
Current liabilities					
Trade payables	*18*	—	—	655	445
Other payables	*19*	26	29	721	458
Amount due to intermediate holding company	*16*	—	303	2,179	2,179
Amount due to a related party	*16*	785	797	735	702
Amount due to a director	*16*	7,705	6,343	—	—
Contract liabilities	*20*	—	—	1,927	1,867
Tax payable		—	—	2,070	2,817
		8,516	7,472	8,287	8,468
Net current (liabilities)/assets		(8,366)	(7,318)	4,575	13,781
Net (liabilities)/assets		(8,366)	(7,318)	4,575	13,781
Capital and reserves					
Share capital	*21*	1	1	1	1
Reserves		(8,367)	(7,319)	4,574	13,780
Total (deficit)/equity		(8,366)	(7,318)	4,575	13,781

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

		As at 31 December			As at 30 June
		2020	2021	2022	2023
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current asset					
Investments in subsidiaries		—*	—*	—*	—*
Current asset					
Amount due from immediate holding company	*16*	1	1	1	1
Net assets		1	1	1	1
Capital and reserves					
Share capital	*21*	1	1	1	1

* *Less than HK$1,000*

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Exchange reserve	(Accumulated loss)/retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2020	1	—	(8,151)	(8,150)
Loss and total comprehensive expense for the year	—	(192)	(24)	(216)
At 31 December 2020	1	(192)	(8,175)	(8,366)
(Loss)/profit and total comprehensive (expense)/income for the year	—	(110)	1,158	1,048
At 31 December 2021	1	(302)	(7,017)	(7,318)
(Loss)/profit and total comprehensive (expense)/income for the year	—	(176)	12,069	11,893
At 31 December 2022	1	(478)	5,052	4,575
(Loss)/profit and total comprehensive (expense)/income for the period	—	(377)	9,583	9,206
At 30 June 2023	1	(855)	14,635	13,781
At 31 December 2021	1	(302)	(7,017)	(7,318)
Profit and total comprehensive income for the period	—	156	7,069	7,225
At 30 June 2022	1	(146)	52	93

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities				
(Loss)/profit before taxation	(24)	1,158	14,185	10,618
Adjustments for:				
Depreciation of property, plant and equipment	2	—	—	—
Impairment losses on trade and retention receivables and contract assets, net	—	—	376	130
Operating cash flows before movements in working capital	(22)	1,158	14,561	10,748
(Increase) decrease in trade and retention receivables	—	—	(5,698)	2,891
Increase (decrease) in trade and other payables	—	2	1,417	(453)
Increase in contract assets	—	—	(3,318)	(2,916)
Increase in contract liabilities	—	—	2,004	30
Increase in amount due from a director	—	(1,465)	(10,808)	(10,005)
Net cash (used in)/generated from operating activities	(22)	(305)	(1,842)	295
Profit tax paid	—	—	—	(288)
Net cash (used in)/generated from operating activities	(22)	(305)	(1,842)	7
Financing activities				
Advance from a director	26	—	—	—
Advance from intermediate holding company	—	303	1,876	—
Net cash from financing activities	26	303	1,876	—
Net increase/(decrease) in cash and cash equivalents	4	(2)	34	7
Cash and cash equivalents at beginning of the year/period	137	149	153	179
Effect of foreign exchange rate changes	8	6	(8)	(43)
Cash and cash equivalents at end of the year/period	149	153	179	143

* *Less than HK$1,000*

NOTES TO HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

Pacific Mining Industry Limited (the "**Target Company**") is a private company incorporated in the British Virgin Island on 6 September 2011. At the date of this report, its immediate holding company is Pacific Marble & Granite Holdings Limited, a private company in Hong Kong and its ultimate holding party is Mr. Lui Yue Yun Gary. The Target Company's registered office is Portcullis Chambers, 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgins Island VG1110.

The principal activities of the Target Company are supply, installation and trading of marble and granite and other marble related business in the PRC.

The Historical Financial Information is presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Target Company.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the principles of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The companies now comprising the Target Group underwent a group reorganisation (the "**Reorganisation**") which on 14 September 2022, the Target Company has acquired the entire equity interest of PMG (China) Limited from Pacific Marble & Granite Holdings Limited at a consideration of HK$100.

The Reorganisation was completed on 14 September 2022 and since then, the Target Company became the holding company of the companies comprising the Target Group.

The companies now comprising the Target Group exclude 內鄉縣聚鑫礦業有限公司, which has been disposed on 11 January 2023.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Target Group for the Relevant Periods are prepared as if the current group structure had been in existence throughout the Relevant Periods or since the date of incorporation where there is a shorter period. The consolidated statements of financial position of the Target Group as at 31 December 2020, 2021 and 2022 and 30 June 2023 have been prepared to present the assets and liabilities of the companies now comprising the Target Group as at the respective dates as if the current group structure had been in existence at those dates.

No statutory financial statements of the Target Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Group has consistently applied all amendments to HKFRSs that are effective for the accounting period beginning on 1 January 2020 throughout the Relevant Periods.

New and amendments to HKFRSs in issue but not yet effective

The Target Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined
2 Effective for annual periods beginning on or after 1 January 2024
3 Effective for annual periods beginning on or after 1 January 2025

The directors of the Target Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the Target Group's financial performance and positions and/or on the disclosures to the Target Group's financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. For the purpose of preparation of the Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment ("**HKFRS 2**"), leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of combination

The Historical Financial Information incorporates the financial statements of the entities now comprising the Group. Control is achieved when the Group:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Target Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on combination.

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue from contracts with customers

The Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;
- the Target Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Target Group's performance does not create an asset with an alternative use to the Target Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of the performance obligation is measured based on the Target Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

A contract asset is the Target Group's right to consideration in exchange for the services that the Target Group has transferred to a customer. In addition, incremental costs incurred to obtain a new contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortised cost.

A contract liability is the Target Group's obligation to render the services to a customer for which the Target Group has received consideration from the customer. A contract liability is recognised by the Target Group when the customer pays consideration but before the Target Group renders the service to the customer. Contract liabilities mainly included the advanced payments received from stone sales and provision of Supply and installation service.

The description of the accounting policy for the principal revenue streams of the Target Group is as follows.

(a) Stone sales

Revenue from stone sales is recognised when goods are delivered to the locations designated by the customer, which is taken to be the point in time when the Target Group transfers control over the goods to the customers.

(b) Supply and installation service

The Target Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Target Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. When the outcome of a contract cannot be estimated reliably, supply and installation service is recognised only to the extent of contract costs incurred that are likely to be recoverable. Variations in contract work, claims and incentive payments are included in supply and installation service to the extent of contract costs incurred that are likely to be recoverable. On the consolidated balance sheet, the Target Group reports the net contract position for each contract as either an asset or a liability. A contract asset represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract liability represents liability where the opposite is the case.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Target Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Target Group reasonably expects that the effects on the Historical Financial Information would not differ materially from individual leases within the portfolio.

The Target Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Target Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Target Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Employment benefits

Retirement benefits costs

Payments to the defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from (loss)/profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for rental, use in provision of services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on property, plant and equipment

At the end of the reporting period, the Target Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Target Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade and retention receivables, contract assets, other receivables, amounts due from related parties and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Target Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Target Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Target Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Target Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

Irrespective of the above, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Target Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Target Group uses a practical expedient in estimating ECL on trade and lease receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For provision matrix assessment, the Target Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 4, the directors of the Target Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Revenue recognition for construction contract

The Target Group reviews and revises the estimates of supply and installation service, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by the management on the basis of quotations provided by the major contractors, suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred. Such significant estimate may have impact on the profit recognised in each period. The Target Group recognises its supply and installation service based on the inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Target Group reviews and revises the estimates of supply and installation service, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the supply and installation service.

Estimated impairment loss recognised on trade and retention receivables and contract assets

When there is objective evidence of impairment loss, the Target Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss/further impairment loss may arise.

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the carrying amount of trade and retention receivables and contract assets is Nil, Nil, HK$4,476,000 and HK$1,103,000 (net of allowance for doubtful debts of Nil, Nil, HK$231,000 and HK$221,000) respectively and Nil, Nil, HK$3,014,000 and HK$5,409,000 (net of allowance of doubtful debts of Nil, Nil, HK$145,000 and HK$130,000) respectively.

6. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represented the amounts received and receivable from the operation of supply, installation and trading of marble and granite and other marble related business in the PRC during the Relevant Periods.

The Target Group's revenue from external customers based on their nature are detailed below:

	Year ended 31 December			Six months ended 30 June	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Supply and installation of marble and granite business	—	—	15,474	1,959	4,904
Trading of marble and granite business	—	3,787	23,234	16,724	17,255
	—	3,787	38,708	18,683	22,159
Timing of revenue recognition					
Over time	—	—	15,474	1,959	4,904
At a point of time	—	3,787	23,234	16,724	17,255
	—	3,787	38,708	18,683	22,159

The Target Group's operation is solely derived from the operation of supply, installation and trading of marble and granite and other marble related business in the PRC during the Relevant Periods. For the purpose of resources allocation and performance assessment, the chief operating decision maker (being the senior management of the Target Group) reviews the overall results and financial position of the Target Group as a whole, which are prepared based on same accounting policies set out in note 4. Accordingly, the Target Group has only one single operating segment and no further analysis of this single segment is presented.

Geographical information

The Target Group's revenue from external customers attributed to the geographical areas based on the location of customers is presented as follows:

	Year ended 31 December			Six months ended 30 June	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The PRC	—	3,787	38,708	18,683	22,159

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Target Group are as follows:

	Year ended 31 December			Six months ended 30 June	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Customer A from trading of marble and granite business *(note i)*	—	3,787	23,134	16,724	13,927
Customer B from supply and installation of marble and granite business *(note ii)*	—	—	15,474	1,132	2,343

Notes:

(i) The corresponding revenue for the year ended 31 December 2020 for Customer A is Nil.

(ii) The corresponding revenue for the years ended 31 December 2020 and 31 December 2021 for Customer B is Nil.

7. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 December			Six months ended 30 June	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Impairment losses recognised on trade and retention receivables and contract assets, net	—	—	(376)	—	(130)
Sundry income	—	—	542	—	—
	—	—	166	—	(130)

8. (LOSS)/PROFIT BEFORE TAXATION

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Loss)/profit before taxation has been arrived at after charging:					
Directors' emoluments *(note 10)*	—	—	—	—	—
Other staff costs	—	—	157	64	90
Retirement benefit schemes contributions to other staff	—	—	47	13	27
Total staff costs	—	—	204	77	117
Auditor's remuneration	—	—	—	—	—
Depreciation of property, plant and equipment	2	—	—	—	—
Cost of inventories recognised as an expense	—	2,082	21,305	9,763	10,368
Short term lease payment	—	—	103	103	16

9. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current tax:					
— PRC Enterprise Income Tax ("**EIT**")	—	—	607	20	212
— Hong Kong Profits Tax	—	—	1,509	368	823
	—	—	2,116	388	1,035

Under the Law of PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. In addition, one Mainland China subsidiary was qualified as "Small Low-profit Enterprise" and subject to an Enterprise Income Tax Rate of 2.5% for the first Renminbi ("**RMB**") 1 million of taxable profits and 5% for taxable profits above RMB1 million but not exceeding RMB3 million.

Hong Kong Profits Tax was calculated under the two-tiered profits tax rates regime where the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million was taxed at 16.5%. Hong Kong Profits Tax of the qualified entity of the Target Group was calculated in accordance with the two-tiered profits tax rates regime. The profits of other Target Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

The income tax expense for the Relevant Periods can be reconciled to the (loss)/profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Loss)/profit before taxation	(24)	1,158	14,185	7,457	10,618
Tax calculated at domestic tax rates applicable to profits in the respective region	(6)	290	2,822	1,262	2,145
Tax effect of expenses not deductible for tax purpose	6	—	48	53	9
Tax effect of income not taxable for tax purposes	—	—	—	—	(724)
Tax reduction	—	(165)	(165)	(292)	(549)
Tax effect of different tax notes of subsidiaries operating in other jurisdictions	—	(125)	46	—	154
Utilisation of previously unrecognised tax loss	—	—	(635)	(635)	—
Income tax expense for the year/ period	—	—	2,116	388	1,035

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The directors of the Target Company were appointed on 6 September 2011 and 21 December 2011. No emoluments were paid or payable to the directors of the Target Company (including emoluments for services as employee/director of the group entities prior to becoming directors of the Company) by the entities comprising the Target Group during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Target Group to the directors of the Target Company as an inducement to join or upon joining the Target Group or as compensation for loss of office. None of director has waived or agreed to waive any emoluments during the Relevant Periods.

(b) Employees' emoluments

The five highest paid individuals of the Target Group, who are neither a director or chief executive of the Target Company, for the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Salaries and other benefits and allowance	—	—	157	64	90
Retirement benefit schemes	—	—	47	13	27
	—	—	204	77	117

The performance related bonus are determined with reference to the operating results and individual performance during the Relevant Periods.

The number of the five highest paid employees who are not the directors nor the chief executive of the Target Company whose emoluments fell within the following bands are as follows:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
Nil to HK$1,000,000	—	—	2	2	2

During the Relevant Periods, no emoluments were paid by the Target Group to the directors and the five highest paid individuals, as an inducement to join or upon joining the Target Group or as compensation for loss in office. In addition, no director waived or agreed to waive any emoluments during the Relevant Periods.

11. DIVIDENDS

No dividend was declared or paid by the entities now comprising the Target Group in respect of the Relevant Periods.

12. (LOSS)/EARNINGS PER SHARE

No (loss)/earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the Reorganisation of the Target Group as set out in Note 2.

13. PROPERTY, PLANT AND EQUIPMENT

	Office equipment *HK$'000*
COST	
At 1 January 2020, 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023	10
DEPRECIATION	
At 1 January 2020	8
Provided for the year	2
At 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023	10
CARRYING VALUE	
At 31 December 2020	—
At 31 December 2021	—
At 31 December 2022	—
At 30 June 2023	—

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum.

Office equipment 20%

14. TRADE AND RETENTION RECEIVABLES

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables, gross	—	—	4,511	1,120
Retention receivables, gross	—	—	196	204
Less: Allowance for credit losses	—	—	(231)	(221)
Trade and retention receivables, net	—	—	4,476	1,103

The Target Group normally allows credit terms ranging from 30 days to its trade debtors.

The following is an aging analysis of trade and retention receivables, net of allowance for credit losses, based on the invoice date at the end of the reporting period:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	—	—	4,476	1,103

At 31 December 2020, 2021, 2022 and 30 June 2023, no debtors included in the Target Group's trade and retention receivables balance are past due as at the reporting date.

Details of impairment assessment are set out in note 26.

15. PREPAYMENT

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayment	—	—	3	232

16. AMOUNTS DUE FROM/TO RELATED PARTIES

Amount due from immediate holding company

Details of amount due from immediate holding company are stated as follows:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non trade nature:				
Pacific Marble & Granite Holdings Limited	1	1	1	1

The amount due from immediate holding company is non-trade, unsecured, non-interest bearing and repayable in demand.

Amount due from a director

Details of amount due from a director are stated as follows:

	As at 1 January 2020	As at 31 December 2020	2021	2022	As at 30 June 2023	Maximum amount outstanding during Year ended 31 December 2020	2021	2022	Six months ended 30 June 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade nature:									
Mr. Lui Yue Yun, Gary	—	—	—	5,189	15,047	—	1,451	5,189	15,047
Analysed for reporting purposes as:									
Current	—	—	—	5,189	15,047				

The amount due from a director is unsecured, non-interest bearing and repayable on demand. As represented by the directors of the Target Company, the amounts will be subsequently settled in full upon the completion of the acquisition.

Amount due from a related company

Details of amount due from a related company are stated as follows:

	As at 31 December 2020	2021	2022	As at 30 June 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non trade nature:				
Pacific Marble & Granite Limited	—	—	—	314

The amount due from a related company is non-trade, unsecured, non-interest bearing and repayable in demand.

Details of impairment assessment of amounts due from immediate holding company, a related company and a director are set out in note 26.

Amount due to a director

Details of amount due to a director are stated as follows:

	As at 31 December 2020	2021	2022	As at 30 June 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade nature:				
Mr. Lui Yue Yun, Gary	7,705	6,343	—	—

The amount due to a director is unsecured, non-interest bearing and repayable in demand.

Amount due to intermediate holding company

Details of amount due to intermediate holding company are stated as follows:

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-trade nature:				
PMG Holdings Limited	—	303	2,179	2,179

Amount due to a related party

Details of amount due to a related party are stated as follows:

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non trade nature:				
Mr. Lui Wing Yiu, Edwin	785	797	735	702

The amounts due to intermediate holding company and a related party are non-trade, unsecured, non-interest bearing and repayable in demand.

17. BANK BALANCES AND CASH

Bank balances and cash comprise cash held and short term bank deposits with an original maturity of three months or less and company interest at prevailing market rate at the end of each reporting period.

At 31 December 2020, 2021, 2022 and 30 June 2023, bank balances and cash of HK$149,000, HK$153,000, HK$179,000 and HK$143,000 denominated in Renminbi ("**RMB**") are not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the PRC government and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

Bank balances and cash are denominated in currencies other than the functional currencies of the relevant group entities are set out below.

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	149	153	179	143

Details of impairment assessment are set out in note 26.

18. TRADE PAYABLES

The credit period on purchases of goods is 30 days during the Relevant Periods. The aging of trade payables presented based on the invoice date at the end of each reporting period, is as follows:

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	—	—	655	445

19. OTHER PAYABLES

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	26	29	721	458

20. CONTRACT ASSETS AND CONTRACT LIABILITIES

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract costs incurred plus recognised profits less recognised losses	—	—	15,474	20,378
Less: progress billings	—	—	(14,180)	(16,185)
Less: exchange difference	—	—	(62)	(383)
Less: loss allowance *(Note i)*	—	—	(145)	(268)
Balance at end of year	—	—	1,087	3,542
Analysed for reporting purposes as:				
Contract assets *(Note ii)*	—	—	3,159	5,677
Less: loss allowance *(Note i)*	—	—	(145)	(268)
	—	—	3,014	5,409
Contract liabilities *(Note iii)*	—	—	(1,927)	(1,867)
	—	—	1,087	3,542

Notes:

(i) The Target Group also applied the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets. Loss allowance of nil, nil, HK$145,000 and HK$130,000 was made for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023. Movements in the loss allowance for contract assets are as follows:

	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	—	—	—	145
Loss allowance	—	—	145	130
Exchange difference	—	—	—	(7)
At 31 December/30 June	—	—	145	268

(ii) The contract assets primarily relate to the Target Group's rights to consideration for work completed but not yet billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.

(iii) The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the supply and installation services.

21. SHARE CAPITAL

The share capital as at 31 December 2020, 2021 and 2022 and 30 June 2023 represents the share capital of the Target Company.

22. CONTINGENT LIABILITIES

The Target Group did not have any material contingent liabilities as at 31 December 2020, 2021 and 2022 and 30 June 2023.

23. RETIREMENT BENEFITS SCHEMES

The employees of the Target Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit scheme. The only obligation of the Target Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The retirement benefit scheme contributions amounted to approximately Nil, Nil, HK$47,000 and HK$27,000 for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively. No forfeited contributions have been used to reduce the level of contributions during each of the reporting period.

24. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed in the Historical Financial Information, the Target Group entered into the following transactions with related parties during the Relevant Periods as follows:

	Year ended 31 December			Six months ended 30 June
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Management fee to an intermediate holding company	—	321	1,876	—

(b) **Compensation of key management personnel**

The compensation to key management personnel of the Target Group representing individuals appointed as directors of the Target Company is set out in note 10.

Details of the balances with related parties at the end of each reporting period are disclosed in the consolidated statements of financial position and note 16 to the Historical Financial Information.

25. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances. The Target Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Target Group consists of debt balance and equity balance. Equity balance consists of equity attributable to owners of the Target Group, comprising issued share capital, retained profits and reserves.

The directors of the Target Group review the capital structure on a regular basis. As part of this review, the directors of the Target Company consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors of the Target Group, the Target Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issues of new debt.

26. FINANCIAL INSTRUMENTS

a. **Categories of financial instruments**

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Amortised cost	149	153	9,848	16,840
Financial liabilities				
Amortised cost	8,516	7,472	4,290	3,784

b. Financial risk management objectives and policies

The Target Group's financial instruments include bank balances and cash, trade and retention receivables, amounts due from/to related parties, and trade and other payables. Details of these financial instruments are disclosed in the respective notes to the financial statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate risk management measures are implemented on a timely and effective manner.

Market risk

Interest rate risk management

The Target Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances.

The cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. No sensitivity analysis was prepared as the directors of the Target Group consider that the expense of cash flow interest rate risk arising from variable-rate bank balance is insignificant.

Currency risk

The Target Group has foreign currency assets, which expose the Target Group to foreign currency risk. The Target Group currently does not have a foreign currency hedging policy. However, the directors of the Target Group monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Target Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	Assets			
	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	149	153	179	143

No sensitivity analysis on HK$ denominated financial assets is presented as, in the opinion of directors of the Target Company, the impact of movement in HK$/RMB exchange rates to profits or loss is immaterial.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Group's counterparties default on their contractual obligations resulting in financial losses to the Target Group. The Target Group's credit risk exposures are primarily attributable to trade and retention receivables, contract assets as well as bank balances. The Target Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Target Group has no material concentration of credit risk at 31 December 2020 and 2021.

At 31 December 2022 and 30 June 2023, 100% of the total trade and retention receivables and contract assets, were due from the Target Group's top five largest customers.

The Target Group performed impairment assessment for financial assets under ECL model. Information about the Target Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below.

Trade and retention receivables and contract assets

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Target Group generally requires customers to settle progress billings in accordance with contracted terms and other debts in accordance with agreements. Trade and retention receivables and contract assets for contract work are considered past due once billings have been made and revenue has been recognised, respectively. Normally, the Target Group does not obtain collateral from customers. The Target Group measures loss allowances for trade and retention receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

To measure expected credit losses, the Target Group categorises its trade and retention receivables and contract assets based on the nature of customer accounts and shared credit risk characteristics. The expected loss rates are based on the payment profiles of customers and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Impairment losses on trade and retention receivable and contract assets of approximately nil, nil, HK$376,000 and HK$130,000 are recognised during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively.

Bank balances

Credit risk on bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Target Group assessed 12m ECL bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant and therefore no loss allowance was recognised.

Other receivables and amounts due from related parties

For other receivables and amounts due from related parties, the management makes periodic individual assessment on the recoverability of other receivables and amounts due from related parties based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information.

The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Target Group provided impairment based on 12m ECL. Based on the average loss rates, the 12m ECL on other receivables and amounts due from related parties is considered to be insignificant and therefore no loss allowance was recognised.

Liquidity risk

In the management of liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management believes that the Target Group will have sufficient working capital for its future operational requirement.

Liquidity and interest risk analyses

Non-derivative financial liabilities

The following table details the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity risk tables

	Weighted average effective interest rate	**On demand or within 3 months**	**Total undiscounted cash flows**	**Carrying amounts**
	%	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2020				
Non-derivative financial liabilities				
Other payables	—	26	26	26
Amount due to a related party	—	785	785	785
Amount due to a director	—	7,705	7,705	7,705
	N/A	8,516	8,516	8,516
31 December 2021				
Non-derivative financial liabilities				
Other payables	—	29	29	29
Amount due to intermediate holding company	—	303	303	303
Amount due to a related party	—	797	797	797
Amount due to a director	—	6,343	6,343	6,343
	N/A	7,472	7,472	7,472
31 December 2022				
Non-derivative financial liabilities				
Trade payables	—	655	655	655
Other payables	—	721	721	721
Amount due to intermediate holding company	—	2,179	2,179	2,179
Amount due to a related party	—	735	735	735
	N/A	4,290	4,290	4,290

	Weighted average effective interest rate	On demand or within 3 months	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2023				
Non-derivative financial liabilities				
Trade payables	—	445	445	445
Other payables	—	458	458	458
Amount due to intermediate holding company	—	2,179	2,179	2,179
Amount due to a related party	—	702	702	702
	N/A	3,784	3,784	3,784

c. Fair value of financial assets and financial liabilities

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the combined financial statements approximate their fair values because the effect of discounting is immaterial.

27. PARTICULARS OF SUBSIDIARIES

At the end of each reporting period and as at the date of this report, the Target Company has the following subsidiaries comprising the Target Group:

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital/ registered capital	Attribute equity of the Group as at 31 December 2020	2021	2022	30 June 2023	Principal activities
PMG (China) Limited	Hong Kong 18 August 2015	Hong Kong	HK$100 divided into 100 ordinary shares	0%	0%	100%	100%	Trading of marble and granite
廈門亞太宏康石業有限公司	PRC 14 December 2015	PRC	US$2,100,000	0%	0%	100%	100%	Trading of marble and granite and supply and installation of marble and granite for construction projects

28. EVENT AFTER THE END OF THE REPORTING PERIOD

There was no significant event took place subsequent to 30 June 2023.

29. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, the Target Company or any the companies non comprising the Target Group have been prepared in respect of any period subsequent to 30 June 2023.

Set out below is the management discussion and analysis of the Group for each of the three years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, as extracted from the relevant sections in the annual reports of the Company for each of the three years ended 31 December 2020, 2021 and 2022 and the interim report of the Company for the six months ended 30 June 2023 respectively. The extracted information below were prepared prior to the date of this circular and represents the opinions and beliefs made by the then Directors at such time when the relevant reports were issued.

FOR THE YEAR ENDED 31 DECEMBER 2020

Business Overview

The Group maintained its business focus on the supply and installation of marble product contracts in Hong Kong. However, the overall business environment in Hong Kong deteriorated rapidly during the year. The adverse impact of the ongoing COVID-19 pandemic and the deterioration of the general economic environment on the Group's businesses has been unprecedented. Majority of the Group's ongoing projects had been delayed during the year.

In addition, the effect of COVID-19 vaccine and the performance of the local property market are still uncertain at the moment, which may affect the tendering activities of the construction industry in the future. At the same time, the increasing cost of building materials and construction labour costs posted negative impact on the performance of the construction section in Hong Kong, resulting in the thinner profit margin for the Group.

Finally, the COVID-19 pandemic remains a significant risk to the Group and its business operations, and is likely to remain so well into 2021. Nevertheless, the management had tried the best to get the operations back on track as effectively and efficiently by closely working with its consumers, suppliers and subcontractors. As one of the leading marble subcontractor in Hong Kong, the Board is still confident about the future prospects of the Group.

Financial Review

Revenue

The Group generated revenue from the foundation projects it undertook. The Group recorded a revenue of approximately HK$170.3 million for the year ended 31 December 2020. The decrease as compared with 2019 was mainly due to the fact that majority of the projects undertaken by the Group were delayed.

Gross profit and gross profit margin

Cost of sales mainly includes the cost of raw materials, fabrication expenses, transportation and subcontracting costs. The Group's overall gross profit margin has declined to around 11.2% in 2020, mainly due to the change in project mix and the general increase in the cost of projects.

Administrative expenses

The administrative expenses of the Group in 2020 was approximately HK$21.5 million, representing a decrease of approximately HK$9.9 million or 31.5% as compared to approximately HK$31.3 million in 2019. The decrease was mainly due to: (i) the decrease in wages, salaries and bonuses (excluding amount included in construction contracts) by approximately HK$4.7 million mainly due to the cost cutting measure of the Group and the decrease in overall headcount; and (ii) the decrease in legal and professional fee by approximately HK$1.7 million since the Group had terminated the potential major transactions as compared to that of 2019.

The travelling expense and other general administrative expense had also decreased under the cost cutting measures.

Finance costs

The increase in finance cost was mainly due to the extension of certain trust receipt loans and additional interest cost for certain overdue bank borrowings.

Income tax expense

Income tax expense represents the tax expense incurred in relation to the operation of the Group in Hong Kong.

No provision for income tax expense has been made in 2020 as the Group (and its subsidiaries) recognized loss for the year.

No provision for deferred taxation has been made in 2020 since no significant deferred taxation liability was expected to crystallise.

Loss attributable to equity holders of the Company

Based on the above, loss attributable to equity holders of the Company was approximately HK$34.1 million for the year ended 31 December 2020, as compared to the profit attributable to equity holders of approximately HK$2.1 million for the year ended 31 December 2019.

(Losses)/earnings per share

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. Diluted (losses)/earnings per share adjusts the figures used in the determination of basic (losses)/earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The basic losses per share was approximately 2.82 HK cents. The decrease is due to the significant decrease in profit and a loss for the year was recorded in 2020. As the impact of dilutive element was not significant, the diluted losses per share was also approximately 2.82 HK cents.

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2020, the Company has not considered the effect of the share options given that the effect is anti-dilutive.

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 December 2020.

Liquidity, financial resources and capital structure

The Group has funded the liquidity and capital requirements primarily through its retained profits, borrowings and cash inflows from operating activities. As at 31 December 2020, the capital structure of the Group consisted of equity of approximately HK$124.0 million and debt (the most significant portion is the bank borrowings) of approximately HK$158.8 million.

Due to the difficult operation environment in 2020, most of the projects' work were delayed and thus the receivables collection cycle of the Group had unexpectedly procrastinated. As a result, the Group failed to repay certain trust receipt loans by the due date during the year. Such trust receipt loans were secured by the assets of the Group, including the trade and retention receivables, pledged deposits and contract assets, and were cross guaranteed by the Group's subsidiaries to the relevant banks.

As at the report date of 2020 Annual Report, the Group has not received any formal demand letters from the relevant banks for immediate repayment of full balance, and the bank borrowing facilities granted to the Group were still effective.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to the banks, including speed up the project status and receivable collection cycle, the repayment of trust receipts loan principal and interest of approximately HK$34.9 million to the bank subsequent to the balance sheet date and actively discussed and agreed the repayment plans with the relevant banks to extend the principal subsequent to the due date. The Group expected that there would be no overdue payments to the banks in late 2021 by settling the overdue balance in accordance with the repayment plans. In addition, since status of the on-going projects have been caught up gradually since late 2020, the Group is able to speed up the receivable collection period in 2021.

Based on the cash flow projections cover a period of not less than twelve months from 31 December 2020, the Group is expected to have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2020.

The Group remains committed to a high degree of financial control, a prudent risk management and a full utilisation of financial resources

Cash position and fund available

The Group maintained the liquidity position by managing its gearing ratio and its current ratio. As at 31 December 2020, the current ratio of the Group was approximately 1.6 times. It was calculated as the current assets divided by the current liabilities as at the end of the respective years.

As at 31 December 2020, the Group's bank and cash balance were approximately HK$0.2 million. It has pledged bank deposits of approximately HK$34.5 million to secure the Group's banking facilities. The decrease in cash and cash equivalents was mainly due to the increase in inventories and contract assets for the projects undertaken during the year, while most of the projects of the Group were delayed in their work status.

Bank borrowings

As at 31 December 2020, the Group had total bank borrowings of approximately HK$158.8 million. As at 31 December 2020, the Group had aggregate banking facilities of approximately HK$174.9 million.

The bank facilities were still effective as at the report date of 2020 Annual Report.

As at 31 December 2020, certain bank borrowings whose principal amount of HK$30,091,000 were overdue. Subsequent to the balance sheet date, other bank borrowings with a total principal amount of HK$61,612,000 became overdue. However, the Group has repaid HK$34,851,000 to the banks subsequent to the balance sheet date of 2020 Annual Report. The Group also communicated the repayment plans with the relevant banks in year 2021.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Gearing ratio

The gearing ratio was calculated as the net debts (bank borrowings less the cash and cash equivalents and pledged bank deposits) divided by the total capital as at the end of the respective years and multiplied by 100%. The gearing ratio of 2020 was 50%.

Net current assets

As at 31 December 2020, the Group had net current assets of approximately HK$124.2 million. The decrease in net current assets position was mainly attributable to the increase in trade and retention payables and bank borrowings during the year.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with covenants in relation to banking facility agreements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from the banks to meet its liquidity requirements.

Capital commitments

The Group had no material capital commitments as at 31 December 2020.

Foreign exchange risk

The Group mainly operates in Hong Kong and most of the operating transactions, including the Macau projects, such as revenue, expenses, monetary assets and liabilities, are denominated in Hong Kong dollars. As such, the directors are of the view that the Group's risk in foreign exchange is insignificant and that we should have sufficient resources to meet foreign exchange requirements as and if they arise. Therefore, the Group has not engaged in any derivative contract to hedge its exposure to foreign exchange risk.

Employees and remuneration policy

As at 31 December 2020, the Group had 21 full-time employees who were directly employed by the Group in Hong Kong. For the year ended 31 December 2020, the Group provided periodic training to its employees in relation to different areas such as environmental, social and governance issues and work safety.

For the year ended 31 December 2020, staff remuneration for the employees of the Group included salary pay, discretionary bonus payment which depended on individual performance and profitability of the Group, mandatory provident fund scheme in Hong Kong, medical insurance and other competitive fringe benefits. The remuneration policies for the employees of the Group were determined according to the responsibility, competence, skills, experience and performance of the employees as well as market pay level. The Group reviewed remuneration and benefits of its employees annually according to the relevant market practice and individual performance of the employees.

To provide incentives or rewards to the staff, the Company adopted a share option scheme on 11 June 2018 and 14 June 2018 and share options will be granted to eligible employees in accordance with the share option scheme.

Contingent liabilities

As at 31 December 2020, the Group has issued performance bonds in respect of construction contracts through the bank amounted to HK$5,138,000. Among these performance bonds, approximately HK$1.5 million were related to the construction contracts that completed or substantially completed during the year of 2020.

During the year ended 31 December 2020, the legal cases of the Group were as follows:

(i) The workers of the Group's subcontractors initiated claims for personal injuries against certain subsidiaries of the Group. The amount being claimed for all these cases was HK$878,000. As at the date of 2020 Annual Report, the plaintiff and the defendants are attempting to resolve the claims through mediation and the amount of the possible obligation cannot be measured with reliability.

(ii) A previous subcontractor of the Group initiated a claim for payment of service rendered of HK$8,763,000. As at the date of 2020 Annual Report, the Group took legal actions to defend against the claim and the likelihood of the plaintiff succeed in the whole of its claim is remote.

Significant investment and material acquisition and disposal

The Group had no significant investment or material acquisition or disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2020.

Charge on Assets

As at 31 December 2020, bank facilities granted to the Group are secured by (a) trade and retention receivables of HK$6.7 million; (b) pledged deposits of HK$34.5 million; (c) contract assets of HK$167.7 million; and (d) cross guarantees by the Group's subsidiaries.

Future Plans for Material Investment or Capital Assets

As at 31 December 2020, the Group did not have any plans for material investments and capital assets.

FOR THE YEAR ENDED 31 DECEMBER 2021

Business Overview

The Group maintained its business focus on the supply and installation of marble product contracts in Hong Kong. However, the overall business environment in Hong Kong deteriorated during the year. The adverse impact of the ongoing COVID-19 pandemic and the deterioration of the general economic environment on the Group's businesses has been unprecedented. Majority of the Group's ongoing projects had been delayed during the year of 2021. The tendering successful rate of the Group was significantly declined.

The persistence of the pandemic has posted adverse impact to the general operation environment on the industry, in particular the shipping supply of marble and granites from oversea countries to the Mainland China and Hong Kong. The work schedule of the Group's subcontractors and suppliers were affected as a result.

The pandemic also shocked the Hong Kong economy. The performance of the local property market has shown uncertainty recently, which may affect the future tendering activities of our industry.

Besides, the competition of the supply and installation of marble and granite market remains very keen. The increasing cost of building materials and construction labour costs posted negative impact on the performance of the construction sector in Hong Kong, resulting in the thinner profit margin for the Group.

COVID-19 pandemic would remain a significant risk to the Group and its operations, and is likely to remain so well into 2022, in particular due to the recent outbreak of the "fifth wave" in Hong Kong.

In this competitive industry, reputations are hard-won and determinedly maintained. For further growth and development in the industry, the Group also needs stronger financial resource to support its construction projects, and maintains good relationship with its consumers, subcontractors, suppliers and other stakeholders.

The management had tried the best to get the operations back on track as effectively and efficiently by closely working with its consumers, suppliers and subcontractors. As one of the leading marble subcontractor in Hong Kong, the Board is still confident about the future prospects of the Group especially in the "post-COVID-19" period.

Financial Review

Revenue

The Group generated revenue from the foundation projects we undertook. The Group recorded a revenue of approximately HK$91.9 million for the year ended 31 December 2021, representing a significant decrease of 46.0% compared with that in the year ended 31 December 2020. The decrease was mainly due to certain construction projects undertaken by the Group were delayed, and the decline in the new tender activities during the year of 2021.

Gross profit and margin

The Group's gross profit decreased from approximately HK$19.1 million to approximately HK$11.2 million, representing approximately HK$7.9 million or 41.4% decrease as compared with the gross profit for the corresponding period in 2020. There was a slight increase in gross profit margin from approximately 11.2% in 2020 to 12.1% in 2021.

Administrative expenses

The administrative expenses of the Group in 2021 was approximately HK$25.3 million, representing an increase of approximately HK$3.9 million or 18.2% as compared to approximately HK$21.4 million in 2020. The increase was mainly due to the increase in wages, salaries and bonuses (excluding amount included in construction contracts) by approximately HK$2.5 million mainly due to the increase in overall headcount and salary.

Finance costs

The increase in finance cost was mainly due to the extension of certain trust receipt loans and additional interest cost for certain overdue bank borrowings.

Income tax expense

Income tax expense represents the tax expense incurred in relation to the operation of the Group in Hong Kong.

No provision for income tax expense has been made in 2021 as the Group (and its subsidiaries) recognised loss for the year.

No provision for deferred taxation has been made in 2021 since no significant deferred taxation liability was expected to crystallise.

Loss attributable to owners of the Company

Based on the above, loss attributable to owners of the Company was approximately HK$46.7 million for the year ended 31 December 2021.

Losses per share

Basic losses per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year. Diluted losses per share adjusts the figures used in the determination of basic losses per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The basic losses per share was approximately 3.76 HK cents. The increase is due to the increase in loss for the year. As the impact of dilutive element was not significant, the diluted losses per share was also approximately 3.76 HK cents.

Diluted losses per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2021, the Company has not considered the effect of the share options given that the effect is anti-dilutive.

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 December 2021.

Liquidity, financial resources and capital structure

The Group has funded the liquidity and capital requirements primarily through its loans, borrowings and cash inflows from operating activities. As at 31 December 2021, the capital structure of the Group consisted of equity of approximately HK$83.0 million and debt of approximately HK$123.4 million.

Due to the difficult operation environment in years 2020 and 2021, most of the construction projects of the Group were delayed and thus the receivables collection cycle had unexpectedly procrastinated. As a result, the Group failed to repay certain trust receipt loans to the banks by the due date during the years ended 31 December 2020 and 2021. Such trust receipt loans were secured by the assets of the Group, including the trade and retention receivables, pledged bank deposits and contract assets, and were cross guaranteed by the Group's subsidiaries to the relevant banks.

As at the years ended 31 December 2020 and 2021 and up to the report date of 2021 Annual Report, the Group has not received any formal demand letters from the banks for immediate repayment. The Directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to the banks, including speed up the project status and receivable collection cycle, the repayment of trust receipts loan principal and interest of approximately HK$115.9 million during the year ended 31 December 2021 and actively discussed and agreed the repayment plans with the relevant banks to extend the principal subsequent to the due date. As at the report date of 2021 Annual Report, the Group's bank borrowings significantly reduced to approximately HK$39.6 million.

Based on the cash flow projections cover a period of not less than twelve months from 31 December 2021, the Group is expected to have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2021. The Group remains committed to a high degree of financial control, a prudent risk management and a full utilisation of financial resources.

Cash position and fund available

The Group maintained the liquidity position by managing its gearing ratio and its current ratio. As at 31 December 2021, the current ratio of the Group was approximately 2.5 times. It was calculated as the current assets divided by the current liabilities as at the end of the respective years.

As at 31 December 2021, the Group's bank balances and cash were approximately HK$2.7 million and there was no pledged bank deposits. The decrease in cash and cash equivalents was mainly due to repayments of bank borrowings during the year of 2021.

Bank borrowings

As at 31 December 2021, the Group had total bank borrowings of approximately HK$42.9 million. The Group has not renewed its banking facilities since the last report date in 2020.

Gearing ratio

The gearing ratio was calculated as the net debts (loans from Directors, bank borrowings less the cash and cash equivalents and pledged bank deposits) divided by the total capital as at the end of the respective years and multiplied by 100%. The gearing ratio of 2021 was 59%.

Net current assets

As at 31 December 2021, the Group had net current assets of approximately HK$160.9 million. The increase in net current assets position was mainly attributable to the decrease in bank borrowings during the year. The Group's policy is to regularly monitor its liquidity requirements and its compliance with covenants in relation to banking facility agreements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from the banks to meet its liquidity requirements

Capital commitments

The Group had no material capital commitments as at 31 December 2021.

Foreign exchange risk

The Group mainly operates in Hong Kong and Macau. Its revenue, expenses, monetary assets and liabilities are denominated in Hong Kong dollars. As such, the Directors are of the view that the Group's risk in foreign exchange is insignificant and that we should have sufficient resources to meet foreign exchange requirements as and if they arise. Therefore, the Group has not engaged in any derivative contract to hedge its exposure to foreign exchange risk.

Employees and remuneration policy

As at 31 December 2021, the Group had 30 full-time employees who were directly employed by the Group in Hong Kong. For the year ended 31 December 2021, the Group provided periodic training to its employees in relation to different areas such as environmental, social and governance issues and work safety.

For the year ended 31 December 2021, staff remuneration for the employees of the Group included salary pay, discretionary bonus payment which depended on individual performance and profitability of the Group, mandatory provident fund scheme in Hong Kong, medical insurance and other competitive fringe benefits. The remuneration policies for the employees of the Group were determined according to the responsibility, competence, skills, experience and performance of the employees as well as market pay level. The Group reviewed remuneration and benefits of its employees annually according to the relevant market practice and individual performance of the employees.

To provide incentives or rewards to the staff, the Company adopted a share option scheme on 11 June 2018 and 14 June 2018 and share options will be granted to eligible employees in accordance with the share option scheme.

Contingent liabilities

As at 31 December 2021, the Group has issued performance bonds in respect of construction contracts through the bank amounted to HK$5.1 million. Among these performance bonds, approximately HK$0.4 million were related to the construction contracts that completed or substantially completed during the year ended 31 December 2021.

During the year ended 31 December 2021, the legal cases of the Group was as follows:

(i) There were several legal cases concerning claims for personal injuries against certain subsidiaries of the Company. As at the date of 2021 Annual Report, two cases had developed to legal proceedings, while the other two cases were still at their initial stage. The amount being claimed for in these cases was still being determined, and the amount of the possible obligation cannot be ascertained with reliability.

(ii) A previous subcontractor of the Group initiated a claim for payment of service rendered of HK$8,763,000. As at the date of 2021 Annual Report, the Group took legal actions to defend against the claim and the likelihood of the plaintiff succeed in the whole of its claim is remote.

Significant investment and material acquisition and disposal

On 22 December 2021, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with an independent third party to dispose of 100% interest in its subsidiaries (the "**Disposal Group**") at a consideration of HK$100. The disposal was completed on 22 December 2021. The assets and liabilities of the Disposal Group on the date of disposal included property and equipment, right-of-use assets, deposits, prepayments and other receivables, bank balances and cash, accruals and other payables, lease liabilities and loan from a third party amounted to approximately HK$3,070,000, HK$11,761,000, HK$2,591,000, HK$42,000, HK$498,000, HK$13,074,000 and HK$10,322,000, respectively, which aggregate to net liabilities of approximately HK$6,430,000. During the year ended 31 December 2021, a gain on disposal of subsidiaries of approximately HK$6,430,000 was recognised, with net cash outflows on disposal amounted to approximately HK$42,000.

Save as disclosed above, there was no significant investments held, no material acquisitions or disposals of subsidiaries, associates or joint ventures for the year ended 31 December 2021.

Charge on Assets

As at 31 December 2021, bank facilities granted to the Group are secured by (a) trade and retention receivables of HK$6.9 million; (b) contract assets of HK$125.7 million; and (c) cross guarantees by the Group's subsidiaries.

Future Plans for Material Investment or Capital Assets

As at 31 December 2021, the Group did not have any plans for material investments and capital assets.

FOR THE YEAR ENDED 31 DECEMBER 2022

Business Overview

The persistence of the COVID-19 pandemic has posted adverse impact to the general operation environment on the industry, in particular the shipping supply of marble and granites from oversea countries to the People's Republic of China (the "**PRC**") and Hong Kong. In particular, there were serious negative impact in the first quarter of 2022. The work schedule of the Group's subcontractors and suppliers were affected as a result.

The pandemic also shocked the Hong Kong economy and it needs time to recover. The performance of the local property market still has a lot of uncertainty, which may affect the future tendering activities of our industry.

The competition of the supply and installation of marble and granite market remains very keen. The increasing cost of building materials and construction labour costs posted negative impact on the performance of the construction sector in Hong Kong, resulting in the thinner profit margin for the Group.

In this competitive industry, reputations are hard-won and determinedly maintained. For further growth and development in the industry, the Group also needs stronger financial resource to support its construction projects, and maintains good relationship with its consumers, subcontractors, suppliers and other stakeholders.

The management had tried the best to get the operations back on track as effectively and efficiently by closely working with its consumers, suppliers and subcontractors. As one of the leading marble subcontractor in Hong Kong, the Board is confident about the future prospects of the Group especially in the "post-COVID-19" period.

Financial Review

Revenue

The Group generated revenue from the foundation projects we undertook. The Group recorded a revenue of approximately HK$91.7 million for the year ended 31 December 2022, representing a decrease of 0.2% compared with that in the year ended 31 December 2021.

Gross profit and margin

The Group's gross profit increased from approximately HK$11.2 million to approximately HK$14.9 million, representing approximately HK$3.7 million or 33.0% increase as compared with the gross profit for the corresponding period in 2021. There was an increase in gross profit margin from approximately 12.1% in 2021 to 16.2% in 2022.

Administrative expenses

The administrative expenses of the Group in 2022 was approximately HK$22.6 million, representing an decrease of approximately HK$2.7 million or 10.7% as compared to approximately HK$25.3 million in 2021. The decrease was mainly due to the decrease in depreciation of the right-of-use assets incurred by the disposed subsidiaries in last year.

Finance costs

Net finance costs decreased from HK$10.3 million to HK$7.6 million for the year ended 31 December 2022. The decrease was mainly due to the settlement of the outstanding bank borrowings and loans from Executive Directors during the year. The increasing bank interest rate may pose additional financial burden to the Group. The volatility in the interest rate may adversely affect the financial cost of the Group.

Income tax expense

Income tax expense represents the tax expense incurred in relation to the operation of the Group in Hong Kong.

No provision for income tax expense has been made in 2022 as the Group (and its subsidiaries) recognised loss for the year.

No provision for deferred taxation has been made in 2022 since no significant deferred taxation liability was expected to crystallise.

Loss attributable to owners of the Company

Loss attributable to owners of the Company was approximately HK$44.4 million for the year ended 31 December 2022.

(Losses)/earnings per share

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding adjusting with the impact on issuance of mandatory convertible bonds during the financial year. Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

The basic loss per share was approximately 3.45 HK cents. The decrease is due to the increase in weighted average number of ordinary shares during the year. As the impact of dilutive element was not significant, the diluted loss per share was also approximately 3.45 HK cents.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2022, the diluted loss per share is the same as the basic loss per share as there were no dilutive potential ordinary shares outstanding.

Dividend

The Directors of the Company do not recommend the payment of final dividend for the year ended 31 December 2022.

Liquidity, financial resources and capital structure

The Group has funded the liquidity and capital requirements primarily through its loans, borrowings and cash inflows from operating activities. As at 31 December 2022, the capital structure of the Group consisted of equity of approximately HK$53.6 million and debt of approximately HK$98.6 million.

Due to the difficult operation environment in years 2021 and 2022, most of the construction projects of the Group were delayed and thus the receivables collection cycle had unexpectedly procrastinated. As a result, the Group failed to repay loans to the banks by the due date as at 31 December 2022.

As at the years ended 31 December 2021 and 2022 and up to the report date, the Group has not received any formal demand letters from the banks for immediate repayment. The Directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to the banks, including speed up the project status and receivable collection cycle. As at the report date of 2022 Annual Report, the Group's bank borrowings reduced to approximately HK$35.9 million.

Based on the cash flow projections cover a period of not less than twelve months from 31 December 2022, the Group is expected to have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2022. The Group remains committed to a high degree of financial control, a prudent risk management and a full utilisation of financial resources.

Cash position and fund available

The Group maintained the liquidity position by managing its gearing ratio and its current ratio.

As at 31 December 2022, the current ratio of the Group was approximately 1.9 times. It was calculated as the current assets divided by the current liabilities as at the end of the respective years.

As at 31 December 2022, the Group's bank balances and cash were approximately HK$1.1 million. The decrease in cash and cash equivalents was mainly due to repayment of bank borrowings.

Bank borrowings

As at 31 December 2022, the Group had total bank borrowings of approximately HK$36.6 million. The Group has not renewed its banking facilities since late 2020.

Gearing ratio

The gearing ratio was calculated as the net debts (loans from Directors, bank borrowings and convertible bonds less the bank balances and cash) divided by the total capital as at the end of the respective years and multiplied by 100%. The gearing ratio of 2022 was 65%.

Net current assets

As at 31 December 2022, the Group had net current assets of approximately HK$108.7 million. The decrease in net current assets position was mainly attributable to the decrease in contract assets and increase in accruals and other payables during the year. The Group's policy is to regularly monitor its liquidity requirements and its compliance with covenants in relation to banking facility agreements, to ensure that it maintains sufficient reserves of cash and cash equivalents and adequate committed lines of funding from the banks to meet its liquidity requirements.

The bank borrowings covenants

As at 31 December 2022, the Group had total bank borrowings of approximately HK$36.6 million As at 31 December 2022, the Group has not renewed its banking facilities since its last report date in 2021.

Capital commitments

The Group had no material capital commitments as at 31 December 2022.

Foreign exchange risk

The Group mainly operates in Hong Kong and Macau. Its revenue, expenses, monetary assets and liabilities are denominated in Hong Kong dollars. As such, the Directors are of the view that the Group's risk in foreign exchange is insignificant and that we should have sufficient resources to meet foreign exchange requirements as and if they arise. Therefore, the Group has not engaged in any derivative contract to hedge its exposure to foreign exchange risk.

Employees and remuneration policy

As at 31 December 2022, the Group had 88 full-time employees who were directly employed by the Group in Hong Kong. For the year ended 31 December 2022, the Group provided periodic training to its employees in relation to different areas such as environmental, social and governance issues and work safety.

For the year ended 31 December 2022, staff remuneration for the employees of the Group included salary pay, discretionary bonus payment which depended on individual performance and profitability of the Group, mandatory provident fund scheme in Hong Kong, medical insurance and other competitive fringe benefits. The remuneration policies for the employees of the Group were determined according to the responsibility, competence, skills, experience and performance of the employees as well as market pay level. The Group reviewed remuneration and benefits of its employees annually according to the relevant market practice and individual performance of the employees.

To provide incentives or rewards to the staff, the Company adopted a share option scheme on 11 June 2018 and 14 June 2018 and share options will be granted to eligible employees in accordance with the share option scheme.

Contingent liabilities

As at 31 December 2022, the Group has issued performance bonds in respect of construction contracts through the bank amounted to HK$3.7 million. This performance bond was related to the construction contract that substantially completed during the year ended 31 December 2022.

During the year ended 31 December 2022, the legal cases of the Group was as follows:

(i) There were several legal cases concerning claims for personal injuries against certain subsidiaries of the Company. As at the date of 2022 Annual Report, two cases had developed to legal proceedings, while the other two cases were still at their initial stage. The amount being claimed for in these cases was still being determined, and the amount of the possible obligation cannot be ascertained with reliability.

(ii) A previous subcontractor of the Group initiated a claim for payment of service rendered of HK$8,763,000. As at the date of 2022 Annual Report, the Group took legal actions to defend against the claim and the likelihood of the plaintiff succeed in the whole of its claim is remote.

Significant investment and material acquisition and disposal

The Group had no significant investment or material acquisition or disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2022.

Charge on Assets

As at 31 December 2022, bank facilities granted to the Group are secured by (a) trade and retention receivables of HK$4 million; (b) contract assets of HK$98.2 million; and (d) cross guarantees by the Group's subsidiaries.

Future Plans for Material Investment or Capital Assets

As at 31 December 2022, the Group did not have any plans for material investments and capital assets.

FOR THE SIX MONTHS ENDED 30 JUNE 2023

Business Overview

The Group's profitabilities and liquidities were significantly declined in these few years. Due to the overdue bank borrowings records since 2020, it is difficult for the Group to obtain new bank facilities to support the further construction projects. As a result, the Group has to rely on its internal resources, the financial supports from the Company's Executive Directors and other sources of funds to support its operations.

The US Federal Reserve continued to raise interest rate during the period. Most business sectors in Hong Kong have been adversely affected as a result. The property markets in both Hong Kong and the Mainland China have shown decline during the period. At the same time, global economic growth is predicted to fall from 3.5% in 2022 to 3% in both 2023 and 2024, according to the World Economic Outlook report published by International Monetary Fund. Despite the uncertainties in both the global and local economies, there is still strong potential demand for the high quality marble and granite products in Hong Kong property markets and Macau recreation buildings. The management would try the best to get the operations back on track as effectively and efficiently by closely working with its consumers, suppliers and subcontractors.

Financial Review

Revenue

During the six months ended 30 June 2023, the Group generated revenue from the its supply and installation projects and stone sales projects in Hong Kong and Macau. It recorded a decrease in revenue for approximately HK$27.7 million or 50.6% compared with last period, mainly due to the decrease of revenue generated from supply and installation service. The volume of the construction project works were much lower than the last six months ended 30 June 2022.

Gross profit and gross profit margin

Cost of sales mainly includes the cost of marble, raw materials, fabrication expenses, transportation and subcontracting costs. The Group's overall gross profit margin has improved from around 25.6% to 28.5% mainly due to the difference in project mix and the impact of variation orders certified or confirmed.

Moreover, the gross profit of the Group decreased by approximately HK$6.3 million or approximately 45.1% from approximately HK$14.0 million for the period ended 30 June 2022 to approximately HK$7.7 million for the period ended 30 June 2023.

Administrative expenses

The administrative expenses of the Group for the current period amounted to approximately HK$8.7 million, representing a decrease of approximately HK$0.9 million, or 9.3% compared to approximately HK$9.6 million for the last period.

The decrease was mainly due to the decrease in depreciation for the Group's right-of-use assets and legal and professional fees compared with last period.

Finance costs

Finance costs were mainly arisen from the bank borrowings and the Directors' loan for the operation purposed. The finance costs decreased from approximately HK$3.7 million for the period ended 30 June 2022 to approximately HK$2.6 million for the period ended 30 June 2023. The decrease was mainly due to the settlement of certain outstanding bank borrowings in both year 2022 and during the period.

Income tax expense

Income tax expense represents the tax expense incurred in relation to the operation of the Group in Hong Kong.

No provision for income tax expense has been made in current period as the Group (and its subsidiaries) recognised loss for the period ended 30 June 2022.

No provision for deferred taxation has been made in current period since no significant deferred taxation liability was expected to crystallise.

Loss attributable to owners of the Company

Loss attributable to owners of the Company was approximately HK$3.6 million for the current period, as compared to a loss attributable to owners of the Company of approximately HK$1.8 million for the last period.

Liquidity and financial resources

The Group has funded the liquidity and capital requirements primarily through retained profits, borrowings and cash inflows from operating activities. As at 30 June 2023, the capital structure of the Group consisted of equity of approximately HK$62.0 million and bank borrowings of approximately HK$33.6 million.

Due to the difficult operation environment in the past few years, most of our construction projects were delayed and thus the receivables collection cycle of the Group had unexpectedly procrastinated. As a result, the Group failed to repay certain bank borrowings (mainly trust receipt loans) by the due date since year 2020. These trust receipt loans were secured by the assets of the Group, including the trade and retention receivables, pledged deposits and contract assets, and were cross guaranteed by the Group's subsidiaries to the relevant banks. As at the report date, the Group is negotiating with the relevant banks for different settlement plans for the outstanding bank borrowings.

The Directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to the banks, including but not limited to speeding up the project status and receivables collection cycle, repayment of trust receipts loan principal and interest based on the discussions with the relevant banks and actively discussions the repayment plans with the relevant banks to extend the principal subsequent to the due date. At the same time, the Group had made effort to reduce its overdue bank borrowings in accordance with the repayment plans. In addition, the Group continues to make effort in speeding up the receivable collection period in the current period. As at 30 June 2023, the overdue bank borrowings had been significantly reduced. The Group remains committed to a high degree of financial control, a prudent risk management and a full utilisation of financial resources.

Cash position and fund available

The Group maintained the liquidity position by managing its gearing ratio and its current ratio. As at 30 June 2023, the Group's cash and cash equivalents were approximately HK$0.5 million. As at 30 June 2023, the current ratio of the Group was approximately 2.0 times.

Bank borrowings

As at 30 June 2023, the Group had total bank borrowings of approximately HK$33.6 million. As at 30 June 2023, the Group has not renewed its banking facilities since its last report date in 2020.

Gearing ratio

As at 30 June 2023, the Group's gearing ratio was approximately 58%, calculated as the net debts (loans from executive Directors, bank borrowings and convertible bonds less the bank balance and cash) divided by the total equity as at the end of the respective periods and multiplied by 100%.

Net current assets

As at 30 June 2023, the Group had net current assets of approximately HK$110.1 million. The Group's policy is to regularly monitor its liquidity requirements and its compliance with covenants in relation to banking facility agreements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from the banks to meet its liquidity requirements.

Capital commitments

The Group has no material capital commitments as at 30 June 2023.

Foreign exchange risk

The Group mainly operates in Hong Kong and Macau. Its revenue, expenses, monetary assets and liabilities are denominated in Hong Kong dollars. As such, the Directors are of the view that the Group's risk in foreign exchange is insignificant and that the Group should have sufficient resources to meet foreign exchange requirements as and if they arise. Therefore, the Group has not engaged in any derivative contract to hedge its exposure to foreign exchange risk.

Employees and remuneration policy

As at 30 June 2023, the Group had 22 full-time employees who were directly employed by the Group in Hong Kong. For the period ended 30 June 2023, the Group provided periodic training to its employees in relation to different areas such as environmental, social and governance issues and work safety.

During the six months ended 30 June 2023, staff remuneration for the employees of the Group included salary pay, discretionary bonus payment which depended on individual performance and profitability of the Group, mandatory provident fund scheme in Hong Kong, medical insurance and other competitive fringe benefits. The remuneration policies for the employees of the Group were determined according to the responsibility, competence, skills, experience and performance of the employees as well as market pay level. The Group reviewed remuneration and benefits of its employees annually according to the relevant market practice and individual performance of the employees. To provide incentives or rewards to the staff, the Company adopted a share option scheme on 11 June 2018 and 14 June 2018 and share options will be granted to eligible employees in accordance with the share option scheme.

Contingent liabilities

As at 30 June 2023, the Group has issued a performance bond in respect of construction contracts through bank which amounted to HK$3.7 million. This performance bond was secured by bank facilities.

During the period ended 30 June 2023, there were several legal cases concerning claims for personal injuries against certain subsidiaries of the Company. As at the date of 2023 Interim Report, two cases had developed to legal proceedings while the other two cases were still at their initial stage. The amount being claim for in these cases was still being determined, and the amount of the possible obligation cannot be ascertained with reliability.

A previous subcontractor of the Group initiated a claim for payment for services rendered in the sum of HK$6.5 million. The Group actively defended against the claim and the liability of the Group cannot be ascertained with reliability as at the date of 2023 Interim Report. The Directors consider the likelihood of the plaintiff succeeding in the claim to be remote based on the current available information and legal advice from lawyer.

Significant investment and material acquisition and disposal

The Group had no significant investment or material acquisition or disposal of subsidiaries, associates and joint ventures for the period ended 30 June 2023.

Charge on Assets

As at 30 June 2023, bank facilities granted to the Group are secured by (a) trade and retention receivables of HK$4.3 million; (b) contract assets of HK$93.6 million; and (d) cross guarantees by the Group's subsidiaries.

Future Plans for Material Investment or Capital Assets

As at 30 June 2023, the Group did not have any plans for material investments and capital assets.

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2022 and the six months ended 30 June 2023 (the "**Track Record Period**"). The following financial information is based on the audited financial information of the Target Group set forth in Appendix II to this circular.

BUSINESS REVIEW

The principal activity of the Target Company is investment holding. The Target Group, through the operations of Xiamen Yatai and PMG China, is principally engaged in the supply, installation and trading of marble and granite and other marble related business in the PRC.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Target Group had not recorded any revenue. The Target Group recorded a revenue of approximately HK$3.8 million for the year ended 31 December 2021, which was mainly derived from sales of marble and granite business.

For the year ended 31 December 2022, revenue was recorded at approximately HK$38.7 million, representing an increase of approximately 922.1% as compared to that for the year ended 31 December 2021, due to increase in revenue from both supply and installation, and sales of marble and granite businesses.

For the six months ended 30 June 2023, revenue was recorded at approximately HK$22.2 million, representing an increase of approximately 18.6% as compared to that for the six months ended 30 June 2022, due to increase in revenue from sales of marble and granite.

Cost of sales

The Target Group's cost of sales mainly represented the costs and expenses directly attributable to the purchases of marble, transportation and other items.

For the year ended 31 December 2020, the Target Group had not recorded any cost of sales because there was no revenue recorded during the period. The Target Group recorded cost of sales of approximately HK$2.3 million for the year ended 31 December 2021.

For the year ended 31 December 2022, cost of sales amounted to approximately HK$22.3 million, representing an increase of approximately 865.7% as compared to that for the year ended 31 December 2021, due to increase in revenue during the period.

For the six months ended 30 June 2023, cost of sales amounted to approximately HK$11.0 million, representing an increase of approximately 10.3% as compared to that for the six months ended 30 June 2022, due to increase in revenue during the period.

Gross profit and gross profit margin

For the year ended 31 December 2020, the Target Group had not recorded any gross profit because there was no revenue recorded during the period. The Target Group recorded a gross profit of approximately HK$1.5 million for the year ended 31 December 2021.

For the year ended 31 December 2022, gross profit was recorded at approximately HK$16.4 million, representing an increase of approximately 1,010.1% as compared to that for the year ended 31 December 2021, due to increase in revenue and a higher gross profit margin during the period.

For the six months ended 30 June 2023, gross profit was recorded at approximately HK$11.2 million, representing an increase of approximately 28.0% as compared to that for the six months ended 30 June 2022, due to increase in revenue and a higher gross profit margin during the period.

The gross profit margin was approximately 39.1% for the year ended 31 December 2021, 42.4% for the year ended 31 December 2022 and 50.6% for the six months ended 30 June 2023 respectively. The increasing gross profit margin was mainly attributable to the increase in gross profit margin of the sales of stone business due to increase in selling price of the stones.

Other income, gains and losses

There were no other income, gains and losses for the years ended 31 December 2020 and 2021. The other income/(loss) for the year ended 31 December 2022 and for the six months ended 30 June 2023 amounted to HK$166,000 and HK$(130,000), which was mainly sundry income in relation to consultancy fees received in relation to a construction project in the PRC, and provision for impairment loss on the trade and retention receivables and contract assets.

Administrative expenses

Administrative expenses of the Target Group mainly consisted of management fees paid for administrative services, staff costs and rental costs.

The Target Group's administrative expenses amounted to approximately HK$24,000 for the year ended 31 December 2020. Administrative expenses increased by approximately 1,237.5% to approximately HK$321,000 for the year ended 31 December 2021, primarily due to increase in management fees for administrative services in line with revenue increase for the year.

For the year ended 31 December 2022, administrative expenses were recorded at approximately HK$2.4 million, representing an increase of approximately 647.7% as that for the year ended 31 December 2021, due to increase in management fees for administrative services and staff costs in line with revenue increase for the period.

For the six months ended 30 June 2023, administrative expenses were recorded at approximately HK$457,000, representing an decrease of approximately 64.8% as that for the six months ended 30 June 2022, due to decrease in management fees for administrative services and staff costs in line with revenue increase for the period.

Profit/loss for the year or period

The Target Group recorded loss for the year of approximately HK$24,000 and profit for the year of HK$1.2 million for the years ended 31 December 2020 and 2021 respectively. The change from net loss to net profit was mainly due to increase in revenue for the year ended 31 December 2021.

For the year ended 31 December 2022, profit was recorded at approximately HK$12.1 million, representing an increase of approximately 942.2% as compared to that for the year ended 31 December 2021, due to increased revenue during the period.

For the six months ended 30 June 2023, profit was recorded at approximately HK$9.6 million, representing an increase of approximately 35.6% as compared to that for the six months ended 30 June 2022, due to increased revenue during the period.

Dividend

No dividend has been paid or declared by the Target Company during the Track Record Period.

FINANCIAL POSITION AND OTHER FINANCIAL INFORMATION

Contract assets

The Target Group's contract assets primarily relate to the Target Group's rights to consideration for work completed but not yet billed at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.

The Target Group did not have any contract assets as at 31 December 2020 and 2021 respectively. It recorded contract assets of approximately HK$3.0 million as at 31 December 2022 due to the work completed in relation to supply and installation business during the year ended 31 December 2022.

For the six months ended 30 June 2023, contract assets were recorded at approximately HK$5.4 million, due to slowdown in the overall projects progress during the period.

Contract liabilities

The Target Group's contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the supply and installation services.

The Target Group did not have any contract liabilities as at 31 December 2020 and 2021 respectively. It recorded contract liabilities of approximately HK$1.9 million and HK$1.9 million as at 31 December 2022 and 30 June 2023 respectively.

Capital structure, liquidity and financial resources

As at 31 December 2020, 2021, 2022 and 30 June 2023, the net (liabilities)/assets of the Target Group were approximately HK$(8.4) million, HK$(7.3) million, HK$4.6 million and HK$13.8 million, respectively; and the bank balances and cash were approximately HK$149,000, HK$153,000, HK$179,000 and HK$143,000, respectively. The Target Group's net current (liabilities)/assets as at 31 December 2020, 2021, 2022 and 30 June 2023 were approximately the same as its net (liabilities)/assets as the Target Group's non-current assets and liabilities were immaterial during the Track Record Period. As at 31 December 2020, 2021, 2022 and 30 June 2023, the gearing ratio of the Target Group was approximately -50%, -50%, 37% and 17% respectively. The Target Group's gearing ratio was calculated as the net debts (amount due to intermediate holding company, a related party and a director less the bank and cash balance) divided by the total capital as at the end of the respective years or period (as the case may be) and multiplied by 100%.

The Target Group did not have any interest-bearing debts during the Track Record Period.

Significant investments, material acquisitions and disposals

Apart from 內鄉縣聚鑫礦業有限公司 (Neixiang Juxin Mining Co., Ltd.*), a wholly foreign owned enterprise established in the PRC, which is principally engaged in the investment of mining projects, and was owned as to 70% by Xiamen Yatai and as to 30% by an Independent Third Party prior to its disposal by Xiamen Yatai on 11 January 2023, the Target Group did not have any significant investments or carry out any material acquisitions and disposal during Track Record Period.

Charges on assets

As at 31 December 2020, 2021, 2022 and 30 June 2023, the Target Group did not charge any of its assets.

Foreign exchange risks

During the Track Record Period, the principal activities of the Target Group were conducted in the PRC and its income and expenses were mainly denominated in RMB. In light of this, the Target Group was not exposed to material risks in relation to foreign exchange rate fluctuation and has not entered into any contracts to hedge its exposure to foreign currency risks.

Employee and remuneration policy

Compensation for employees of the Target Group is made with reference to the market as well as individual performance and contributions. The Target Group reviews the remuneration policies and packages on a regular basis and makes necessary adjustments that accommodate the pay levels in the industry.

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the Target Group had nil, nil, two and two employees respectively. The total staff costs of the Target Group were approximately nil, nil, HK$204,000 and HK$117,000 for the three years ended 31 December 2022 and for the six months ended 30 June 2023, respectively.

Future plans for material investments or capital assets

As at 31 December 2020, 2021, 2022 and 30 June 2023, the Target Group did not have any future plans for material investments or capital assets.

Contingent liabilities

As at 31 December 2020, 2021 and 2022 and 30 June 2023, apart from contract liabilities of approximately HK$1.9 million as set out in note 20 to the audited consolidated financial statements of the Target Group contained in Appendix II to this circular, the Target Group did not have any contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Target Group.

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group ("**Unaudited Pro Forma Financial Information**") is prepared by the Directors to illustrate the effect of the Acquisition, as if the Acquisition had been completed on 30 June 2023. Details of the Acquisition are set out in the section headed "Letter from the Board" contained in this circular.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules, for the purpose of illustrating the effect of the Acquisition pursuant to the terms of the Sale and Purchase Agreement.

The Unaudited Pro Forma Financial Information is prepared based on the information on unaudited condensed consolidated statement of financial position of the Group as at 30 June 2023, the unaudited condensed consolidated statement of profit or loss and other comprehensive income and the unaudited condensed consolidated statement of cash flows for the six months ended 30 June 2023 which has been extracted from the published interim report of the Company for the six months ended 30 June 2023 and after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition and (ii) factually supportable, as if the Acquisition had been completed on 30 June 2023. The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties. Accordingly, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2023 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group and the Target Group, as set out in the published interim report of the Company for the six months ended 30 June 2023 and the accountants' report on the Target Group as set out in Appendix II to this circular respectively, and other financial information included elsewhere in this circular.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	The Group as at 30 June 2023 *HK$'000* (unaudited) *(Note 1)*	The Target Group as at 30 June 2023 *HK$'000* (audited) *(Note 2)*	Unaudited pro forma adjustments *HK$'000* *(Note 4)*	Unaudited pro forma total for the Enlarged Group *HK$'000* (unaudited)
Non-current assets				
Property, plant and equipment	679	—	—	679
Right-of-use assets	889	—	—	889
	1,568	—	—	1,568
Current assets				
Inventories	64,040	—	—	64,040
Trade and retention receivables	19,413	1,103	—	20,516
Contract assets	138,911	5,409	—	144,320
Deposits, prepayment and other receivables	934	232	—	1,166
Amount due from immediate holding company	—	1	—	1
Amount due from a related company	—	314	(314)	—
Amount due from a director	—	15,047	(2,179)	12,868
Tax recoverable	194	—	—	194
Bank balances and cash	537	143	—	680
	224,029	22,249	(2,493)	243,785
Current liabilities				
Trade and retention payables	42,031	445	—	42,476
Accrual and other payables	29,468	458	2,323	32,249
Contract liabilities	3,072	1,867	—	4,939
Lease liabilities	650	—	—	650
Amount due to a related company	330	—	(330)	—
Bank borrowings	33,619	—	—	33,619
Convertible bonds	4,708	—	—	4,708
Amount due to intermediate holding company	—	2,179	(2,179)	—
Amount due to a related party	—	702	—	702
Income tax payables	13	2,817	—	2,830
	113,891	8,468	(186)	122,173

	The Group as at 30 June 2023	The Target Group as at 30 June 2023	Unaudited pro forma adjustments	Unaudited pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)		(unaudited)
	(Note 1)	*(Note 2)*	*(Note 4)*	
Net current assets	110,138	13,781	(2,307)	121,612
TOTAL ASSETS LESS CURRENT LIABILITIES	111,706	13,781	(2,307)	123,180
Non current liabilities				
Loans from directors	49,570	—	—	49,570
Lease liabilities	111	—	—	111
	49,681	—	—	49,681
Net assets	62,025	13,781	(2,307)	73,499
Capital and reserves				
Share capital	14,834	1	(1)	14,835
Reserves	47,191	13,780	(2,306)	58,664
Total equity	62,025	13,781	(2,307)	73,499

Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Enlarged Group

	The Group for the six months ended 30 June 2023	The Target Group for the six months ended 30 June 2023	Unaudited pro forma adjustments	Unaudited pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)		(unaudited)
	(Note 1)	*(Note 2)*	*(Note 4)*	
Revenue	27,053	22,159	—	49,212
Cost of sales	(19,336)	(10,954)	—	(30,290)
Gross profit	7,717	11,205	—	18,922
Other income, gains and losses	—	(130)	—	(130)
Administrative expenses	(8,737)	(457)	(2,323)	(11,517)
Operating (loss)/profit	(1,020)	10,618	(2,323)	(7,275)
Finance cost	(2,570)	—	—	(2,570)
(Loss)/profit before taxation	(3,590)	10,618	(2,323)	4,705
Income tax expense	—	(1,035)	—	(1,035)
(Loss)/profit for the period	(3,590)	9,583	(2,323)	3,670
Other comprehensive (expense)/ income:				
Item that may be subsequently reclassified to profit or loss:				
Exchange difference on translation of foreign operations	—	(377)	16	(361)
Total comprehensive (expense)/ income for the period	(3,590)	9,206	(2,307)	3,309

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

	The Group for the six months ended 30 June 2023 *HK$'000* (unaudited) *(Note 1)*	The Target Group for the six months ended 30 June 2023 *HK$'000* (audited) *(Note 2)*	Unaudited pro forma adjustments *HK$'000* *(Note 4)*	Unaudited pro forma total for the Enlarged Group *HK$'000* (unaudited)
Operating activities	(3,590)	10,618	(2,323)	4,705
(Loss)/profit before taxation				
Adjustments for:				
Depreciation of property, plant, equipment and right of use assets	716	—	—	716
Impairment losses on trade and retention receivables and contract assets, net	—	130	—	130
Finance cost	2,570	—	—	2,570
Operating cash flows before movements in working capital	(304)	10,748	(2,323)	8,121
Changes in working capital:				
Inventory	2,543	—	—	2,543
Trade and other receivables	(1,162)	2,891	—	1,729
Trade and other payables and accrued charges	(4,810)	(453)	—	(2,940)
Contract assets	3,521	(2,916)	2,323	605
Contract liabilities	(404)	30	—	(374)
Amount due from a director	—	(10,005)	—	(10,005)
Net cash (used in)/generated from operating activities	(616)	295	—	(321)
Profit tax paid	—	(288)	—	(288)
Net cash (used in)/generated from operating activities	(616)	7	—	(609)
Financing activities				
Interest paid	(894)	—	—	(894)
Proceeds from issuance of new shares under general mandate	9,000	—	—	9,000
Proceeds from issuance of convertible bonds	2,500	—	—	2,500
Repayment of loans and borrowings	(2,110)	—	—	(2,110)
Repayment of Directors' loans	(7,320)	—	—	(7,320)
Lease liabilities payment	(337)	—	—	(337)
Net cash from financing activities	839	—	—	839

	The Group for the six months ended 30 June 2023 *HK$'000* (unaudited) *(Note 1)*	**The Target Group for the six months ended 30 June 2023** *HK$'000* (audited) *(Note 2)*	**Unaudited pro forma adjustments** *HK$'000* *(Note 4)*	**Unaudited pro forma total for the Enlarged Group** *HK$'000* (unaudited)
Net increase/(decrease) in cash and cash equivalents	223	7	—	230
Cash and cash equivalents at beginning of the period	(9,177)	179	—	(8,998)
Effect of foreign exchange rate changes	—	(43)	—	(43)
Cash and cash equivalents at the end of the period	(8,954)	143	—	(8,811)
Analysis of the balance of cash and cash equivalents				
Cash and bank balances	537	143	—	680
Bank overdrafts	(9,491)	—	—	(9,491)
Cash and cash equivalents at end of the period	(8,954)	143	—	(8,811)

* *Less than HK$1,000*

Note 1 The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2023 as set out in the published interim report of the Company for the six months ended 30 June 2023.

Note 2 The balances are extracted from the audited consolidated statements of financial position of the Target Group as at 30 June 2023 as set out in Appendix II to this circular.

Note 3 The consideration for the acquisition of entire equity interest in the Target Group under the Sale and Purchase Agreement amounting to HK$100,000,000, subject to Adjustment (the "**Consideration**"). The Consideration shall be satisfied in the following manner:

(i) as to the sum of approximately HK$50,000,000 (representing one-half of the Consideration) to be settled by way of allotment and issue of 588,235,294 Consideration Shares by the Company to the Vendor (or as it may direct) on the Completion Date; and

(ii) as to the sum of approximately HK$50,000,000 (representing one-half of the Consideration), to be settled by way of allotment and issue of such number of Consideration Shares by the Company to the Vendor (or as it may direct) in accordance with the paragraph headed "Profit Guarantee and Consideration Adjustment" in this circular.

As the fair value of the Consideration Shares at the Completion Date of may be substantially different from the closing price of the Company's shares at 30 June 2023, the actual fair value of the Consideration may be different from those presented in the Unaudited Pro Forma Financial Information.

The effect to the Company's share capital and share premium in respect of the issue of 588,235,294 Consideration Shares by the Company with par value of HK$0.01 per share as follows:

	HK$'000
Share Capital	
— Issue of Consideration Shares	
(being 588,235,294 shares of HK$0.01 each)	5,882
Share Premium	
— Issue of Consideration Shares	
(being 588,235,294 shares x (HK$0.07 — HK$0.01))	35,294
	41,176

For the preparation of the Unaudited Pro Forma Financial Information, the Company has used the closing price of its shares at 30 June 2023 to calculate the fair value of the Consideration Shares. On the Completion Date, the fair value of the Consideration Shares will have to be reassessed, based on the market price of the Company's shares on the Completion Date.

For the purpose of preparing the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities, the Acquisition is assumed to have taken place on 30 June 2023 and accounted for as a business combination under common control since the Group and the Target Group are both controlled by Mr. Lui Yue Yun, Gary before and after the Acquisition, and that control is not transitory. Assets and liabilities of the Target Group will be consolidated at their respective carrying amounts. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

Note 4 The adjustment represents the payment of estimated transaction costs of approximately HK$2,323,000 that are directly attributable to the Acquisition would have been charged to profit or loss.

Note 5 No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2023.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from CL Partners CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of Company, in respect of the unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Anchorstone Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Anchorstone Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position, statement of profit or loss and other comprehensive income and statement of cash flows as at 30 June 2023 and related notes as set out on pages V-1 to V-7 of the circular issued by the Company dated 25 October 2023 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages V-1 to V-7 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the very substantial acquisition and connected transaction in relation to acquisition of the entire issued share capital of Pacific Mining Industry Limited (the "**Target Company**") involving the issue of consideration shares on the Group's financial position as at 30 June 2023 as if the transaction had taken place at 30 June 2023. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the six months ended 30 June 2023, on which review 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" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Management

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 Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' 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 accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited 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 an investment 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 at 30 June 2023 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 accountants' judgment, having regard to the reporting accountants' 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.

CL Partners CPA Limited
Certified Public Accountants

Hong Kong
25 October 2023

The following is the text of the valuation report received from Greater China Appraisal Limited, the independent valuer of the Company, prepared for the purpose of incorporation in this circular.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

Anchorstone Holdings Limited
Unit 1501–02, Delta House
No. 3 On Yiu Street, Shatin,
New Territories, Hong Kong

25 October 2023

Dear Sir/Madam,

**Valuation of 100% of Equity Interest in
Pacific Mining Industry Limited and its Subsidiaries**

In accordance with the instructions from Anchorstone Holdings Limited (the "**Company**"), we were engaged to perform a valuation analysis in relation to the market value of 100% equity interest (the "**Equity Interest**") in Pacific Mining Industry Limited (the "**Target Company**") and its subsidiaries, PMG (China) Limited and Xiamen Yatai Hongkang Marble Limited[1] (the "**Subsidiaries**", collectively referred to as the "**Target Group**") as at 30 April 2023 (the "**Valuation Date**").

It is our understanding that our analysis will be used by the management of the Company for transaction reference purpose. We are aware that the entire valuation report may be included in the circular of the Company. The valuation was conducted for the above-mentioned purpose only and this report shall not be used for any other purpose without our written consent. Our work was performed subject to the limiting conditions and general service conditions described in this report.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the Target Group's information or other financial data provided by the management. We assume that the financial and other information obtained is accurate and complete, and we have relied upon this information in performing our valuation.

I. PURPOSE OF ENGAGEMENT

It is our understanding that our analysis will be used by the management of the Company solely for transaction reference purpose.

II. SCOPE OF SERVICES

We were engaged in evaluating the market value of the Equity Interest of the Target Group as at the Valuation Date.

III. BASIS OF VALUATION

We have performed valuation of the Equity Interest on the basis of market value which is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*" under the International Valuation Standards.

Our valuation has been prepared in accordance with the International Valuation Standards (effective 31 January 2022) published by International Valuation Standards Council. These standards contain guideline on the basis and valuation approaches used in business valuation.

IV. LEVEL OF VALUE

Valuation is a range concept and current valuation theories suggest that there are three basic "levels" of value applicable to a business or business interest. The levels of value are respectively:

- **Controlling interest:** the value of the controlling interest, always evaluate an enterprise as a whole;
- **As if freely tradable minority interest:** the value of a minority interest, lacking control, but enjoying the benefit of market liquidity; and
- **Non-marketable minority interest:** the value of a minority interest, lacking both control and market liquidity.

This valuation is primarily prepared on a controlling interest basis.

V. PREMISE OF VALUE

Premise of value relates to the concept of valuing a subject in the manner that would generate the greatest return to the owner of the property. It takes account of what is physically possible, financially feasible and legally permissible. Premise of value includes the following:

- **Going concern:** appropriate when a business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;
- **Orderly liquidation:** appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;
- **Forced liquidation:** appropriate when time or other constraints do not allow an orderly liquidation; and
- **Assembled group of assets:** appropriate when all assets of a business are sold in the market piecemeal instead of selling the entire business.

This valuation is prepared on a going concern basis.

VI. SOURCES OF INFORMATION

Our analysis and conclusion of opinion of value were based on our discussions with the management of the Company, as well as our review of relevant documents, including but not limited to:

- Unaudited consolidated balance sheet of the Target Group as of 30 April 2023;
- Trailing twelve months unaudited consolidated profit and loss account of the Target Group for the period from 1 May 2022 to 30 April 2023;
- Draft sale and purchase agreement in relation to a potential acquisition of the Target Group (the "**Drafted SPA**"); and
- The Company announcement of letter of intent dated on 20 September 2022 in relation to a potential acquisition of the Target Group.

We also relied upon publicly available information from sources on capital markets, including industry reports, news and various databases of publicly traded companies.

VII. COMPANY OVERVIEW

Anchorstone Holdings Limited (the "Company")

The Company is an investment holding company listed on the Main Board of The Stock Exchange of Hong Kong Limited (1592.HK). The Company is principally engaged in the stone supply and installation. The Company primarily engages in the supply and installation of marble and granite for construction projects. The Company undertakes stone supply projects and stone supply and installation projects, which related to hotel renovation and development; commercial plazas and office towers; as well as residential properties. The Company is engaged in the businesses of trading of marble and granite and the supply and installation of marble and granite under the brand of PMG.

Pacific Mining Industry Limited (the "Target Company")

The Target Company is a company incorporated in the British Virgin Islands with limited liability which is principally engaged in investment holding. Mr. Lui Yue Yun Gary is the ultimate beneficial owner of the Target Company. As at the Valuation Date, the Target Company holds 100% equity interests in Xiamen Yatai Hongkang Marble Limited through its wholly-owned subsidiary, PMG (China) Limited.

PMG (China) Limited

PMG (China) Limited is a limited liability company incorporated in Hong Kong on 18 August 2015 under CR No. 2276351. It is principally engaged in trading of marble and granite in Hong Kong. As at the Valuation Date, PMG (China) Limited directly-wholly owns Xiamen Yatai Hongkang Marble Limited as a subsidiary.

Xiamen Yatai Hongkang Marble Limited

Xiamen Yatai Hongkang Marble Limited is a wholly foreign owned enterprise established under the laws of the PRC on 14 December 2015. It is principally engaged in trading, installation of marble and granite and other marble related business in the PRC. It is directly wholly-owned by PMG (China) Limited and indirectly wholly-owned by the Target Company.

Group Chart

The corporate structure of the Target Group as at the Valuation Date is shown below:

VIII. ECONOMIC OVERVIEW

In conjunction with the preparation of this valuation, we have reviewed and analysed Chinese current economic condition where the profit of the Target Group is derived and how the valuation of the Equity Interest may be impacted.

8.1 Nominal GDP Growth in China

The U.S.-China trade war in the past three years and the COVID-19 pandemic brought significant negative impacts on China's economy and made achieving the 13th Five-Year Plan (2016–2020) objectives difficult. Under the current 14th Five-Year Plan (2021–2025), no specific economic growth target is implemented. Notwithstanding, the Chinese Government is confident that China would be able to double its economy in size by 2035. Meanwhile, the party planned to expand the state's role in the economy and advance national economic security interests; use market restrictions and its One Belt, One Road global networks to foster Chinese-controlled supply chains; and sharpen the use of the antitrust, intellectual property, and standards tools to advance industrial policies.

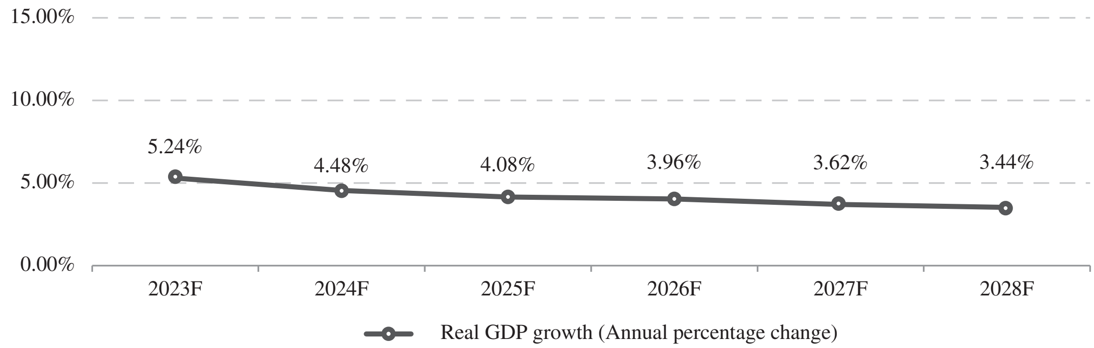
Since the inauguration of the Chinese President and the new government officials in 2013, the core of the economic policy has shifted from focusing on short-term stimulus to no stimulus, deleveraging and structural reform on the national economy. In comparison to five years ago, China encounters more challenges, especially externally. The pandemic has undoubtedly led to the global economic recession and the amplified forces against globalisation. Therefore, the Government would either not set an economic growth target or a lower and flexible growth target. Despite an expected rebound to 8.08% in 2021, it is likely that China's growth is only around less than 5% in average in the next five years, as the ageing population, lower savings rate, supply chain shifts and more stringent tech restrictions are expected to weigh on the China's potential growth.

Table 8-1 Real GDP Annual Growth Rate and Inflation of China

	2017	2018	2019	2020	2021	2022
Real GDP Annual Growth Rate (%)	6.95	6.75	5.95	2.24	8.45	2.99
Inflation (%)	1.52	1.93	2.90	2.49	0.85	1.88

Source: World Economic Outlook Database (April 2023), International Monetary Fund

Figure 8-1 Forecast of Real GDP Annual Growth Rate of China, 2023–2028



Source: World Economic Outlook Database (April 2023), International Monetary Fund

According to the World Economic Outlook Database (April 2023) by the International Monetary Fund (the "**IMF**"), the Chinese economy was ranked 2nd in terms of size; it possesses the greatest growth prospect among the top five economies globally. The Chinese economy is forecasted to grow from USD19,374 billion in 2023 to USD27,493 billion in 2028 with a compound annual growth rate (the "**CAGR**") of 7.25%. It is worth pointing out that the gap between the United States and China is projected to be narrowing over time.

Table 8-2 Forecasts of Worldwide GDP, 2023–2028

		GDP — Billions of the United States Dollar					
	Country	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
1	United States	26,854.60	27,741.12	28,765.96	29,902.87	31,091.59	32,349.66
2	China	19,373.59	20,881.37	22,407.69	24,035.81	25,722.41	27,492.80
3	Japan	4,409.74	4,526.48	4,731.50	4,923.43	5,077.12	5,344.03
4	Germany	4,308.85	4,446.47	4,635.16	4,822.11	4,947.32	5,044.44
5	India	3,736.88	4,062.15	4,403.35	4,765.55	5,153.01	5,575.47

Source: World Economic Outlook Database (April 2023), IMF

In the near-term outlook, several challenges are affecting China's economy. The trade dispute between China and the United States negatively impacts China's economy, dragging China's economic growth. Besides, the rapid growth in credit financing has derived a so-called 'shadow banking system', raising concerns about the quality of investment and repayment, especially when capital is flowing through less-well supervised parts of the financial system. Since China suffered from the first corporate bond default in March 2014, the bond investors in the current market became more cautious in reviewing the credibility of the borrowers and the market's stability. The outbreak of COVID-19 in early 2020 is bound to hamper China's economy as factories are forced to shut down temporarily, and travel restrictions and fears of contagion were in place. On 24 February 2022, Russia invaded Ukraine. The war will further set back the global recovery severely.

In addition, China's economic growth in the past was highly dependent on continuous investment in infrastructure projects. Redundant and duplicate developments resulted in a mismatch and wastage of resources. The recovery of these substantial investments, which is mainly financed by borrowing, is challenging. After the inauguration of the Chinese President, China's Government tried to tighten the funding channel, and the capital market has immediately quaked. The GDP growth rate and the stability of the entire capital market system in China would potentially be impacted if the problem is not adequately handled.

Furthermore, President's campaign against corruption and extravagant spending, on the one hand, may improve the image of the Government and increase operational efficiency. However, on the other hand, it has affected the customer spending sector, especially, the luxury goods, fine dining and business travelling, which used to be the unofficial fringe benefits of the government officers.

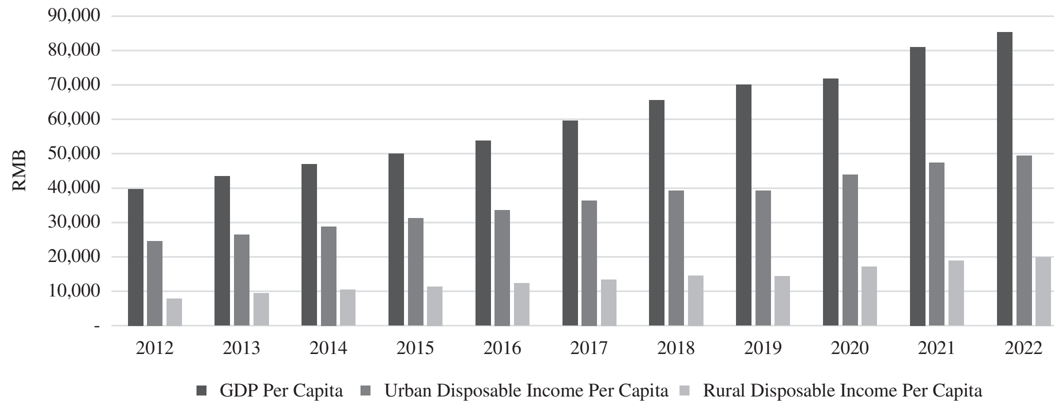
While the GDP growth of China's market declines, the other markets are not suffering less. The protection measures against the COVID-19 pandemic are severely impacting economic activities. According to IMF, the global economy contracted by 3.0% in 2020, much worse than the 0.1% contraction during the 2008–09 financial crisis, and was increased by 6.0% in 2021 and projected to increase at 3.4%, 2.8% and 3.0% in 2022, 2023 and 2024, respectively. Nevertheless, high uncertainty surrounds this outlook, related to the path of the pandemic, the effectiveness of policy support to provide a bridge to vaccine-powered normalization, and the evolution of financial conditions. The Chinese policymaker must clamp down on lending to prevent asset bubbles. Unless the Chinese economy faces imminent risk of collapse, the ''temporary hard-landing'' will not deter China's long-term growth prospects.

8.2 GDP per Capita in China

Improving the standard of living is one of the main issues in social aspect. The disposable income level, being a good measure, has grown significantly over the past few years. The Government has stated that China's GDP per capita is to be at the level of'moderately developed nations' by 2035, with a per capita GDP of about USD30,000 — three times China's current level in 2020. Over this period, it is likely to see the middle class become the largest population segment in China.

According to the National Bureau of Statistics of China, annual disposable income per capita of urban households in China increased from RMB24,565 in 2012 to RMB49,283 in 2022, representing a CAGR of approximately 7.21%, and annual disposable income per capita of rural households increased from RMB7,920 in 2012 to RMB20,133 in 2022, representing a CAGR approximate to 9.78%. Compared to the inflationary figures, the annual inflation rate is between 0.85% and 2.90% during the period from 2012 to 2022. Hence, there were improvements in the standard of living of Chinese people overall from 2012 to 2022.

Figure 8-2 GDP per Capita of China, 2012–2022

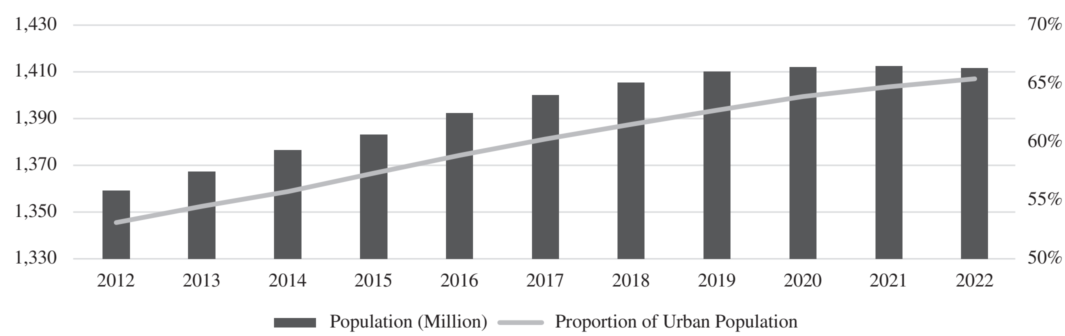


Source: National Bureau of Statistics of China

8.3 Population Growth

The population of China accounts for almost one-fifth of the world's population. According to the National Bureau of Statistics of China, the population grew from 1.359 billion in 2012 to 1.412 billion in 2022 representing a CAGR of approximately 0.42%. The proportion of the urban population in China increased from 52.57% in 2012 to 65.22% in 2022, representing a CAGR of approximately 2.61%.

Figure 8-3 Population and Portion of Urban Population in China, 2012–2022



Source: National Bureau of Statistics of China

Population growth is expected to be steady over the balance of this decade. Population growth, along with increasing urbanisation and expansion of the middle class, is significant to support the future development of the domestic demand on affordable luxury goods, such as vehicles, luxury watches, etc. Steady growth in population together with improving living standard continuously supports a strong demand in housing and transportation.

Although the one-child policy has curbed the growth in China's birth rate, the rising trend of China's population has not been slowed down in recent decades. Simultaneously, the policy's side effect has started to affect the current decade; the number of the elderly is rising, and this age group is forecasted to grow over the next few decades. However, the Government recognised this trend and introduced the two-child policy, which came into effect throughout the country since October 2015. Hopefully, this policy will offset the ageing population structure over the next few decades.

Table 8-3 Age Distribution of China and CAGR, 2012–2021

Age distribution	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR
0–14 (Million)	224	224	227	228	233	235	238	237	253	247	1.09%
15–64 (Million)	1,007	1,010	1,010	1,010	1,009	1,005	1,001	996	969	965	–0.47%
>=65 (Million)	128	133	139	145	150	160	167	178	191	201	5.14%

Source: National Bureau of Statistics of China

8.4 Inflation

Managing inflation risk has been one of the critical missions for China's Government over this decade. The latest economic data released by IMF indicated that China's inflation rate was reported at 1.88% in 2022, an increase was recorded by economic recovery.

Table 8-4 Forecasts of Annual Inflation, 2023–2028

	Inflation, Average Consumer Prices Changes (%)					
	2023F	2024F	2025F	2026F	2027F	2028F
China	2.0	2.2	2.2	2.2	2.2	2.2

Source: World Economic Outlook Database (April 2023), IMF

8.5 Government Policy

The Chinese Government's 14th Five-Year Plan (2021–2025) has supply-side reform as its primary focus. The plan aims at 1) Shifting from quantity-focused development to all-round development; 2) Upholding the central role of innovation in the modernisation drive; 3) Attaching more weight to the build-up of a modern industrial system; 4) Fostering a "dual circulation" development model relying on the strong domestic market; 5) Deepening reform continuously in pursuit of a high-level socialist market economy; 6) Breaking new ground in high-level opening-up and mutually beneficial cooperation.

The 19th National Congress of the Communist Party of China commenced on 8th October 2017 with a keynote report delivered by the President. Congress is China's most important political event which reviews the past five years' progress and shapes the social and economic development for the next five-year term. President's report to the Congress included a pledge to deepen supply-side structural reform; encourage innovation; reduce financial risks; reform state-owned enterprises; and expand market access to foreign companies.

In the Central Economic Work Conference held in Beijing at the end of 2021, the top leaders of the Communist Party of China emphasised that the main tasks in 2022 were as follows:

- Continuing the implementation of a proactive fiscal policy and prudent monetary policies
- The uninterrupted stimulation of market
- A deepening of supply-side structural reform with a focus on smoothing out national economy circulation
- The promotion and concrete application of sci-tech policies
- Growth vitalization through reform and opening-up strategies
- The upgrade to a more balanced and coordinated regional development
- The guarantee that China's social policies protect the people's wellbeing.

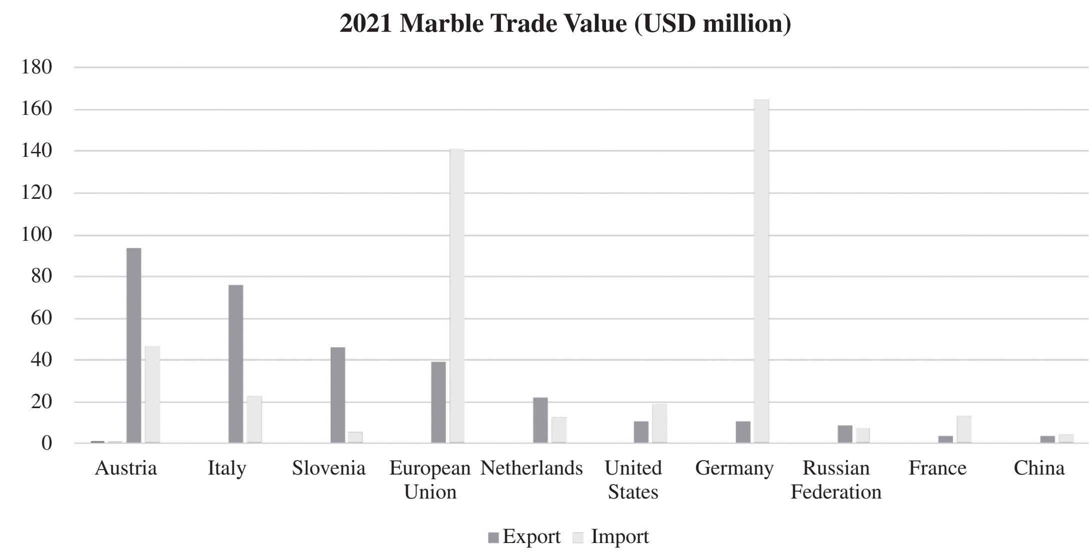
Overall speaking, inflation is mild and the economy may suffer a short-term impact. Currently, it leaves policymakers sufficient flexibility if they believe the economy needs any stimulus policies.

IX. INDUSTRY OVERVIEW

Marble, a rock geologically defined as metamorphosed limestone, a common sedimentary rock composed mostly of mineral calcite, or dolomite that is thoroughly recrystallised and much or all of the sedimentary and biologic texture are obliterated. Marbles also includes limestone that is polishable. Many decorative marbles are of this class; Granite, a type of decorative granite stone, including various magmatic rocks and metamorphic rocks, with uniform granular structure, which is mainly composed of quartz, feldspar and small quantities of black minerals. The specific gravity of marble usually ranges from 2.5 to 3, while granite has a very high specific gravity and can go up to 9.

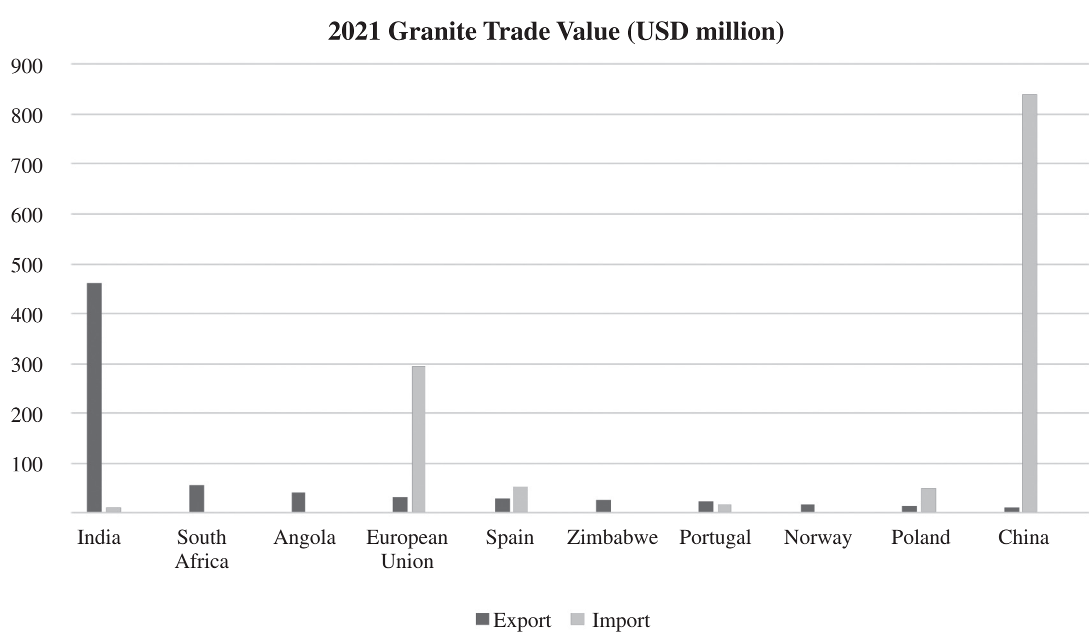
Marble and granite industry is highly fragmented and unorganised. It has high exports for raw as well as processed blocks and moved from labor-intensive to capital-intensive with the advent of technological advancement in recent centuries, thanks to development of automated production tools such as cranes and diamond-cutting wires. According to the World Integrated Trade Solution, in 2021, China ranked 10th in export in granite in terms of total trade value of around USD13 million but top in import, at an amount of USD838 million; and amounts of USD3 million and USD4 million for export and import of stones of marble, respectively. It is found that China had both of the net import amount positive. One point to note, India had a 461 million USD trade value of export in granite, and majority of them, were delivered to China.

Figure 9-1 2021 Marble Trade Value (USD million)



Source: World Integrated Trade Solution

Figure 9-2 2021 Granite Trade Value (USD million)



Source: World Integrated Trade Solution

The Granite, Marble and Stone: Global Strategic Business Report, published in October 2022, showed China will reach a market size of 5.5 billion metric tons by 2027, with a CAGR of 7.9% over the period from 2020 to 2027. Take a look at that of global CAGR, 4.9%, or for countries, Canada, Germany, Japan, with CAGRs of 3.9%, 3.5%, and 2.7%, respectively.

X. VALUATION METHODOLOGY

The valuation of any asset or business can be broadly classified into one of the three approaches, namely the asset approach, the market approach and the income approach. In any valuation analysis, all three approaches above must be considered, and the approach or approaches deemed most appropriate will then be selected for use in the market value analysis of that asset.

1. Asset Approach

This is a general way of determining a market value indication of a business, business ownership interest, security or intangible asset by using one or more methods based on the value of the assets net of liabilities. Value is determined based on the cost of reproducing or replacing the asset, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

2. Income Approach

This is a general way of determining a market value indication of a business, business ownership interest, security or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the Valuation Date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

3. Market Approach

This is a general way of determining a market value indication of a business, business ownership interest, security or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Value is established based on the principle of competition. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should be approximate to one another.

4. Selection of Valuation Approach

4.1 Asset approach — Rejected

Under the asset approach, the value of the Equity Interest is determined based on the replacement cost or reproduction cost rather than the ability to generate streams of benefits in the future. For the Target Group, future economic benefits will be generated from the Target Group's operation of its trading of marble and granite and other related business. As such, the asset approach cannot reliably reflect the value of the Equity Interest. Accordingly, the asset approach was rejected.

4.2 Income approach — Rejected

Under the income approach, the value of the Equity Interest is determined based on the estimation of the projected inputs, such as projected revenue, operating costs and risk-adjusted discount rate. A major challenge to income approach is its sensitivity to model inputs, as slight deviation in discount rate and forecasted operating cash flows would result in significantly different valuation results. Considering the uncertainty and dynamic nature of trading of marble and granite and other marble related business, it is difficult to apply reliable input estimates. Comparatively, market approach referred to the public information of the market participants, which involve fewer assumptions on the input in the valuation and reflecting the market expectation and view on the industry. The result derived from the market approach is fairer in this case. As such, we are in opinion that income approach is not preferable and is rejected in the valuation.

4.3 Market approach — Accepted

Under the market approach, the value of the Equity Interest, asset or business operation could be determined based on the recent trading multiples from listed comparable companies or comparable transactions in the market. The trading prices and public information could reflect the comparable companies' fundamentals and risk expectation of trading of marble and granite and other marble related business as a whole. As there were comparable public companies available in markets which facilitate a meaningful comparison and provide inputs for determining the valuation multiple, the market approach was considered as appropriate and reliable.

XI. GENERAL VALUATION ASSUMPTIONS

A number of general assumptions have to be established in order to sufficiently support our conclusion of valuation. The general assumptions adopted in this valuation were as follows:

- Performance of the Target Group is expected not significantly deviate from the performance of its industry peers;
- There would be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in the regions and countries where the Target Group are located and carrying on its businesses;
- There would be no significant deviation in the industry trends and market conditions from the current market expectation;
- There would be no material change in the current taxation law in the related regions or countries where the Target Group and the comparable companies operate;
- There would be no material change in interest rates or foreign currency exchange rates from those currently prevailing;
- All relevant legal approvals, business certificates or licenses for the normal course of operation have been formally obtained, in good standing and no additional costs or fees are needed to procure such during the application; and
- The Target Group would retain competent management, key personnel and technical staff to support the ongoing business operations.

XII. MARKET APPROACH

Guideline Public Company Method

We considered the Guideline Public Company Method, one of the market approaches in this valuation. The premise behind the Guideline Public Company Method is that prices of substantially similar assets in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry.

Active trading volume in the stock market is a significant and relevant criterion for selection of Guideline Public Companies, as stocks that are actively traded are more representative and could form a meaningful comparison basis for a valuation.

In applying the Guideline Public Company Method, we compute various pricing multiple for each Guideline Public Company. The appropriate valuation multiple is determined and adjusted for the unique aspects of the Target Group being valued. This multiple is then applied to the Target Group being valued to arrive at an estimate of value for the appropriate ownership interest. The selected valuation multiple is based on market capitalisation.

Equity value can be derived from the formula below:

Equity value = Guideline multiple x the financial performance or position of the Target Group

A valuation multiple represents a ratio that uses a Guideline Public Company's market value at the Valuation Date as the numerator and a measure of the Guideline Public Company's operating results (or financial position) as the denominator. In this valuation, we have considered price-to-book ("**P/B**"), price-to-earnings ("**P/E**"), price-to-sales ("**P/S**"), enterprise value/sales ("**EV/S**"), enterprise value/earnings before interests and taxes ("**EV/EBIT**"), and enterprise value/earnings before interests, taxes, depreciation and amortization ("**EV/EBITDA**") multiples.

P/B multiple can only capture tangible assets of a company and cannot capture company-specific competencies and advantages, thus P/B is not the most preferable multiple in the valuation and therefore is not adopted. On the other hand, we considered that P/S and EV/S multiples could not reflect the profitability of the Target Group and thus these multiples are also not preferable in this valuation. EV/S, EV/EBITDA and EV/EBIT multiples use the market capitalization of a company as the starting point, considering the inclusion of the value of debt, minority interest, preferred shares and the exclusion of any cash and cash equivalents to represent enterprise value. Enterprise value generally requires normalized adjustments on debts and/or non-operating assets/liabilities of the Target Group which may be subjective. Thus, EV-related multiples are not adopted in this valuation.

P/E multiple is defined as the company's market capitalization to its net profit as at a specific date. P/E ratio is suitable for companies that can generate consistent and stable net profit. The Target Group engaged in trading of marble and granite and other marble related business. Earning is the primary determinant of value. Therefore, the P/E multiple is considered as an appropriate valuation multiple in this valuation. Once we have selected a number of the Guideline Public Companies and make the necessary adjustments to their financial information, the next step is to determine and compute the appropriate valuation multiples, and the calculation method is the same for all the selected Guideline Public Companies. The process of computing the valuation multiple in this case consists of the following procedures:

1. Determination of the market capitalisation for each of the Guideline Public Companies as at the Valuation Date. The market capitalisation is computed by multiplying their share prices to the number of outstanding shares as at the Valuation Date; and

2. Determination of the measure of financial position, i.e. the annualized net income as at the Valuation Date which represents the denominators of the multiple.

The application of this method depends on the selection of the Guideline Public Companies that with sufficient similarities to the underlying business of the Target Group so as to provide a meaningful comparison. We exercised due care in the selection of the Guideline Public Companies by using reasonable criteria in deciding whether or not a particular Guideline Public Company is relevant.

Selection of Guideline Public Companies

In selecting the Guideline Public Companies, we considered the lines of business, products, market location of the business and other criteria of the Target Group. Our preliminary list of comparable companies is generated from searching through Bloomberg and websites of public companies. The major searching criteria are listed below:

- Listed in China and/or Hong Kong[1];

- More than 50% of revenue contribution from trading of stone and/or building decoration materials in China[2];

- Active trading volume on the Stock Exchanges; and

- Principal business location is China.

[1] Such criteria were included given that the business operation and the source of capital of the Target Group were mainly from the PRC and Hong Kong.

[2] As there was no perfect match of comparable companies with exactly the same business operations, financial performance and risk profile as the Target Group, selection criteria were extended to the substitutes of marbles and granite for the similar appli cations such as flooring, wall, tiles, board materials for renovation, whereas cement and steel products were excluded.

Then, we have investigated the principal of businesses, business location and asset location of each company from segment information generated by Bloomberg, official websites and the most recent annual reports and interim reports of comparable companies to ensure that the selected Guideline Public Companies have contained all the above-mentioned attributes.

The following is the preliminary list of the comparable companies that we have reviewed containing all the above-mentioned attributes, and the comparison with the Target Group in their business descriptions.

Table 12-1 Preliminary List of the Comparable Companies

	Comparable Companies	Tickers	% of Revenue contribution in searching criteria	Business Activities	Trailing 12 Months Net Income/(Loss) *(RMB million)*
1	Artgo Holdings Limited *(Note)*	3313 HK	98%	• produces marble stone products and calcium carbonate products mainly for further processing or trading; and the trading of commodities, and provision of warehousing and logistics services	(131)
2	Beijing New Building Materials PLC	000786 CH	67%	• markets advanced building materials, wall materials, chemical construction materials, and decoration materials	3,168
3	Guangdong Dongpeng Holdings Co Ltd	003012 CH	83%	• distributes building decoration materials and ceramic tile products • sells super glazed ceramic tiles, krystal ceramic tiles, sandstone ceramic tiles, and other related products	280
4	Monalisa Group Co Ltd *(Note)*	002918 CH	99%	• produces and sells w all and floor tiles, porcelain panels, ceramic art, and other products	(301)
5	Xiamen Wanli Stone Stock Co Ltd *(Note)*	002785 CH	68%	• produces marble, granite, slate, sandstone, and other stones and services	(36)
6	Dare Power Dekor Home Co Ltd	000910 CH	99%	• produces and sells laminate floors, three solid wood floors, multi-layer solid wood floors, and other related decoration materials • manufactures high density fibreboards and particle boards	399
7	Der Future Science & Technology Holding Group Co Ltd *(Note)*	002631 CH	51%	• develops, manufactures, and sells wood flooring • expands its product offering to new graphene material applications and other related decoration application	(10)
8	Shanghai Everjoy Health Group Co Ltd *(Note)*	002162 CH	85%	• produces construction ceramics and other related decoration products throughout China	(271)
9	Sinostone Guangdong Co Ltd	001212 CH	100%	• produces and sells stone materials • markets artificial quartz stone plate, artificial quartz stone countertop, and other product throughout China	86
10	Fsilon Furnishing & Construction Materials Corp	605318 CH	99%	• manufactures and sells ceiling products, integrated wall covering products, and other decoration materials products primarily throughout China	8
11	D&O Home Collection Group *(Note)*	002798 CH	84%	• produces porcelains, ceramic and mosaic tiles, and other decoration material products	(1,498)

Source: Bloomberg and websites of public companies

Note: Given that the company was loss-making, it was excluded in the final list of Guideline Public Companies.

Given that the Target Group is profit making, it is considered that the companies with positive earnings share a higher similarity with the Target Group. Comparable companies with positive earnings are selected from the Table 12-1 Preliminary List of the Comparable Companies as Guideline Public Companies in the course of our valuation. The list of Guideline Public Companies and corresponding valuation multiples are summarized as follows:

Table 12-2 Valuation Multiples of the Guideline Public Companies

	Guideline Public Companies	**Tickers**	**% of Revenue contribution in searching criteria**	**Market Capitalizations** *(USD million)*	**P/E Ratios**
1	Beijing New Building Materials PLC	000786 CH	67%	6,483	14x
2	Guangdong Dongpeng Holdings Co Ltd	003012 CH	83%	1,409	35x
3	Dare Power Dekor Home Co Ltd	000910 CH	99%	660	11x
4	Sinostone Guangdong Co Ltd	001212 CH	100%	493	40x
5	Fsilon Furnishing & Construction Materials Corp	605318 CH	99%	250	220x

Source: Bloomberg

In order to form a meaningful and fair valuation, the multiples of comparable companies should be adjusted so that they reflect the risk of the Target Group relative to the comparable companies by making reference to their sizes, in particular the size of the Target Group is much smaller than the market capitalisation of the comparable companies. Therefore, size adjustments should be applied to account for the size differences.

In the course of our valuation, we relied on the studies performed by Kroll as reflected in its Cost of Capital Navigator[3], with the following formula adopted in deriving the size adjustments:

$$\text{Adjusted Multiple} = \frac{1}{\frac{1}{\text{Multiple}} + \text{Size Differentials}}$$

The market capitalization, unadjusted and adjusted multiples of the Guideline Public Companies with are presented as follows:

Table 12-3 Adjusted Valuation Multiples of the Guideline Public Companies

	Guideline Public Companies	Tickers	Market Capitalizations (USD million)	P/E Ratios	Adjusted P/E Ratios
1	Beijing New Building Materials PLC	000786 CH	6,483	14x	9x
2	Guangdong Dongpeng Holdings Co Ltd	003012 CH	1,409	35x	15x
3	Dare Power Dekor Home Co Ltd	000910 CH	660	11x	8x
4	Sinostone Guangdong Co Ltd	001212 CH	493	40x	16x
5	Fsilon Furnishing & Construction Materials Corp	605318 CH	250	220x	32x
				Median	**15x**

Source: Bloomberg

* Products of the figures and sum of the figures may not equal the total of the figures due to rounding.

In the view of the similarity in the principal business activity, target market and profitability of the Guideline Public Companies and the Target Group, we consider the selected Guideline Public Companies are representative and could form a meaningful comparison basis for the valuation. For details in relation to the selection process and criteria of the Guideline Public Companies, please refer to the section headed "Selection of Guideline Public Companies" of this valuation report. Regarding a wide range of market capitalization of the Guideline Public Companies, size adjustments as aforementioned were applied to tackle the issue.

3 The Cost of Capital Navigator by Kroll provides company-level inputs used to estimate size premia. As one of the most authoritative sources of size premia, it is deemed a suitable source to develop the estimates.

Selected multiple for the assessment is listed as below:

Table 12-4 Summary of the Selected Multiple for the Target Group

Valuation Date	Selected Multiple	Median
30 April 2023	Adjusted P/E ratio	15x

Determination of Value

Based on the investigation and analysis stated above and on the valuation method employed, it was our opinion that the market value of the Equity Interest as at the Valuation Date was as follows:

Table 12-5 Equity Interest in the Target Group as at the Valuation Date

Result under the Market Approach		*HK$'000*
Selected Multiple — Adjusted P/E		15x
Net Income *(Note 1)*		10,353
Implied Equity Value before Control Premium and before Discount for Lack of Marketability (the "**DLOM**")		155,299
Add: Control Premium *(Note 2)*	11%	17,083
Implied Equity Value after Control Premium & before DLOM		172,382
Less: DLOM *(Note 3)*	(24%)	(41,372)
Implied 100% Equity Value after Control Premium and DLOM		131,010
Market Value of 100% Equity Interest in the Target Group (rounded)		**131,000**

* Products of the figures and sum of the figures may not equal the total of the figures due to rounding.

Note 1: It represents net income of the Target Group for the year ended 30 April 2023.

Note 2: Please refer to Section XIII. Control Premium for detailed discussion.

Note 3: Please refer to Section XIV. Discount for Lack of Marketability for detailed discussion.

XIII. CONTROL PREMIUM

The corporate value of comparable listed companies used in the market approach is the transaction price in the publicly traded stock market where generally only a minority of shares (i.e. minority interests) can be acquired. There is a difference between the minority interests and the controlling interests. That is, the controlling shareholder has the control power over a subsidiary, but the minority shareholders do not have such control power. This control includes:

- being able to appoint or change the management of a company;
- being able to appoint or change board members;
- being able to determine the salary, bonus and allowance of management personnel; and
- being able to develop a company's business strategy and strategic policy and change the company's business direction.

Based on the above difference, the value of minority interests is lower than that of controlling interests, and the difference is reflected in minority interest discount. Therefore, when using the market approach to calculate the value of the Target Group's equity in the case of holding control, we would apply control premium to reflect control advantage over the peer minorities.

We use the following formula to calculate the control premium:

Control premium = (1 + average premium percentage of controlling interest transactions)/
(1 + average premium percentage of minority interest transactions) – 1

We refer to the average premium percentage of controlling interest transactions and the average premium percentage of minority interest transactions published in the Mergerstat Review from 2017 to 2021 for further calculations. Mergerstat Review, by FactSet MergerStat, is an annual publication that presents compiled statistics relating to mergers and acquisitions that involve both publicly traded and privately held companies. Data on M&A announcements and purchase prices are presented annually and quarterly, for the current period and historically, including details on individual deals and trends in prices, methods of payment, multiples, and premiums. Publisher of the Mergerstat Review is Business Valuation Resources, LLC. They publish auditable market data, news and research, and expert opinion.

Mergerstat Review represents a widely used and accepted database of control premium available to market participants.

We have conducted further calculation with reference to the average premium percentage of controlling interest transactions and the median premium percentage of minority interest transactions from 2017 to 2021 as set out in Mergerstat Review. After calculation with the above formula, the median of control premium from 2017 to 2021 is approximately 11%. We believe a control premium of 11% is fair and reasonable.

XIV. DISCOUNT FOR LACK OF MARKETABILITY

The DLOM is a downward adjustment of part of the value of equity to reflect its lack of marketability. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimum transaction costs. In respect of two identical equities, investors will pay a higher price to purchase the equity that will be exchanged for cash sooner at no risk of value loss, such as listed stocks. In another case, investors will pay a lower price to purchase the equity that takes a longer time or has a greater cost to be realized, such as the stock of a private company. For investors, there is uncertainty about the time required for the realization of the latter and the final realization price (that is, lack of marketability). Therefore, when investors purchase such equity, they require a discount to compensate for the above uncertainty. This discount is a DLOM.

The Target Group is a private company, and the corporate value of comparable listed companies used in the market approach is the transaction price in the publicly traded stock market. In the privately traded market, the transaction of private companies generally takes a longer time and has a greater cost, private companies therefore lack marketability as compared with listed companies, resulting in their value will be discounted. Therefore, the DLOM should be considered when using the market approach.

Based on the above, the DLOM is used in calculating the equity value of the Target Group. When calculating the DLOM, we refer to the Stout Restricted Stock Study (the "**Study**") compiled by Business Valuation Resources, a publisher of auditable market data, news and research, and expert opinion. The Study represents a widely used and accepted database of DLOM available to market participants. We have conducted further calculation with reference to the 5-year average DLOM from 2017 to 2021 as set out in Mergerstat Review. The 5-year average of the marketability discount percentages obtained from the research is approximately 24%. We believe a DLOM of 24% is fair and reasonable considering the Target Group is private.

XV. LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company and the Target Group.

The opinions expressed in this report have been based on the information supplied to us by the Company/the Target Group and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the management of the Company. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

XVI. CONCLUSION OF VALUE

In conclusion, based on the analysis stated above and on the valuation method employed, it is our opinion that the market value of 100% Equity Interest of Pacific Mining Industry Limited and its subsidiaries as at 30 April 2023 is as follows:

Subject of Valuation	**Market Value** *(HKD'000)*
100% Equity Interest of Pacific Mining Industry Limited and its Subsidiaries	131,000

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

Greater China Appraisal Limited
Room 304, 3/F, Shui On Centre
6–8 Harbour Road, Wanchai, Hong Kong

Analysed and Reported by:

Kenneth H.W. Lam, *CFA, FRM, ACCA*
Director

Faye C.Y. Chan, *CPA (Aust.)*
Business Valuation & Transaction Advisory

Sam K.W. Cheung, *FRM*
Business Valuation & Transaction Advisory

Christy C.Y. Kwok, *CPA (Aust.)*
Business Valuation & Transaction Advisory

INVOLVED STAFF BIOGRAPHY

Kenneth H.W. Lam, *CFA, FRM, ACCA*

Director

Mr. Lam is a director of Greater China Appraisal Limited. He has more than 20 years of experience in accounting and financial analyses, including over 10 years of experience in consultancy, business valuation, intangible assets and financial instruments valuation, equity analysis, internal control and due diligence. Prior to joining the company, Mr. Lam worked over a decade in the valuation and advisory field at several advisory firms with a strong network of publicly listed companies and institutional clients. Mr. Lam graduated from the Hong Kong Polytechnic University and is a Chartered Financial Analyst (CFA) charter holder, certified of Financial Risk Manager (FRM) and a certified fellow member of ACCA.

Faye C. Y. Chan*, CPA (Aust.)*

Business Valuation & Transaction Advisory

Ms. Chan has been working in the professional valuation field since 2015. Before joining the industry of valuation, she had served in an international accountancy firm. Ms. Chan has been joining in business valuation industries for private and public companies for different purposes such as financial reporting, mergers and acquisitions, tax filing and fund raising.

She has participated in several representative valuation projects. Her industry exposure primarily covers the clean energy, financial services, consumer and industrial, utility and infrastructure, forestry and agriculture, and mining sectors. She has experience in valuation of intangible assets including trademarks, patents, customer relationship, license, backlog and concession rights etc.

Sam K.W. Cheung*, FRM*

Business Valuation & Transaction Advisory

Mr. Cheung graduated from the Chinese University of Hong Kong with major in Mathematics and minor in Finance. His experience in valuation of business covers different industries. He also has experience in valuation of financial instruments and derivatives for financial reporting purpose.

Christy C.Y. Kwok*, CPA (Aust.)*

Business Valuation & Transaction Advisory

Ms. Kwok graduated from University of Canberra with major in Accounting and Finance. She has experience in valuation of business in different industries including construction and engineering services, property management, security brokerage and food and beverage industries. She also has experience in valuation of intangible assets such trademarks and licences, and valuation of financial instruments for financial reporting purpose.

GENERAL SERVICE CONDITIONS

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional appraisal standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after completion of the engagement.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name and logo in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

1. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised share capital:

Class	Number	Par value per Share	Total nominal value
		HK$	*HK$*
Ordinary Shares	3,000,000,000	0.01	30,000,000

Issued and fully paid or credited as fully paid share capital:

Class	Number	Par value per Share	Total nominal value
		HK$	*HK$*
Ordinary Shares	1,557,966,341	0.01	15,579,663.41

Immediately following the allotment and issue of all of the Consideration Shares, the authorised and issued share capital of the Company will be as follows:

Authorised share capital:

Class	Number	Par value per Share	Total nominal value
		HK$	*HK$*
Ordinary Shares	3,000,000,000	0.01	30,000,000

Issued and fully paid or credited as fully paid share capital:

	Class	Number	Par value per Share	Total nominal value
			HK$	*HK$*
Shares in issue	Ordinary Shares	1,557,966,341	0.01	15,579,663.41
Consideration Shares to be allotted and issued (subject to Adjustment)	Ordinary Shares	1,176,470,588	0.01	11,764,705.88
Total	Ordinary Shares	2,734,436,929	0.01	27,344,369.29

2. DISCLOSURE OF INTERESTS

(i) Directors' and chief executives' interests in the shares and underlying shares of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers are as follows:

Name of Director and the chief executive	Capacity/nature of interest	Total number of share(s) held *(Note 1)*	Percentage of interest in the Company's issued capital
Mr. Lui	Interest in controlled corporation *(Note 2)*	1,960,680,588 (L)	125.85%
		72,515,000 (S)	4.65%
	Beneficial owner	560,000 (L)	0.04%
		560,000 (S)	0.04%
Fung Wai Hang	Beneficial owner	525,000 (L)	0.03%

Notes:

1. "L" denotes long position and "S" denotes short position.

2. Mr. Lui directly holds the entire issued share capital in PMG Investments Limited ("**PMG Investments**") and PMG Investments directly holds approximately 50.33% (in long position) and approximately 4.65% (in short position) of the total number of issued shares of the Company. Therefore, Mr. Lui is taken to be interested in the number of shares of the Company held by PMG Investments pursuant to Part XV of the SFO. Mr. Lui also directly holds the entire issued share capital in Pacific Marble & Granite Holdings (BVI) Ltd. ("**PMGH BVI**") and PMGH BVI directly holds the entire issued share capital in the Vendor, which is taken to be interested in the number of Consideration Shares to be allotted and issued pursuant to the Sale and Purchase Agreement pursuant to Part XV of the SFO. Therefore, Mr. Lui is also taken to be interested in the number of shares of the Company which PMGH BVI and the Vendor are interested in pursuant to Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives has any other 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 or Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which he was taken or deemed to have under provision of the SFO) or as entered in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers.

(ii) Substantial shareholders' interests in the shares and underlying shares of the Company

As at the Latest Practicable Date, so far as known by the Directors, the following persons (not being a Director or chief executive of the Company) had interest or short position in shares or underlying shares and debentures of the Company and its associated corporation which would be required to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of substantial shareholder	Capacity/nature of interest	Total number of share(s) held *(Note 1)*	Percentage of interest in the Company's issued capital
PMG Investments	Beneficial owner	784,210,000 (L) 72,515,000 (S)	50.33% 4.65%
PMGH BVI	Interest in controlled corporation *(Note 2)*	1,176,470,588 (L)	75.51%
Choi Hok Ya	Beneficial owner	137,901,341 (L)	8.85%

Notes:

1. "L" denotes long position and "S" denotes short position.

2. PMGH BVI directly holds the entire issued share capital in the Vendor, which is taken to be interested in the number of Consideration Shares to be allotted and issued pursuant to the Sale and Purchase Agreement pursuant to Part XV of the SFO. Therefore, PMGH BVI is also taken to be interested in the number of shares of the Company which the Vendor is interested in pursuant to Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, no other person had any interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, Mr. Lui is the sole director of PMG Investments and a director of both PMGH BVI and the Vendor, all of which have an interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has or is proposed to have any service contract with any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

5. MATERIAL CONTRACTS

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

(a) the sale and purchase agreement dated 18 November 2022 (as amended and supplemented by a side letter dated 27 February 2023) and entered into among the Purchaser, the Vendor and the Vendor's Guarantor, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares at the Consideration, as detailed in the announcements of the Company dated 18 November 2022, 27 February 2023 and 30 June 2023;

(b) the subscription agreement dated 12 April 2023 and entered into between the Company as issuer, and Choi Hok Ya as subscriber, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, 62,351,914 new Shares at the subscription price of HK$0.08019 per subscription share, as detailed in the announcement of the Company dated 12 April 2023; and

(c) the subscription agreement dated 24 April 2023 and entered into between the Company as issuer, and Choi Hok Ya as subscriber, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, 48,414,427 new Shares at the subscription price of HK$0.08262 per subscription share, as detailed in the announcement of the Company dated 24 April 2023.

6. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors and their respective close associates (as defined in the Listing Rules) was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. DIRECTORS' INTERESTS IN CONTRACTS, ARRANGEMENTS AND ASSETS

As at the Latest Practicable Date: (i) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group; and (ii) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, disposed of by, or leased to any member of the Enlarged Group.

8. LITIGATION

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

9. EXPERT AND CONSENT

The following is the qualification of the experts who have given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Lego Corporate Finance Limited	a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities
CL Partners CPA Limited	Certified Public Accountants
Greater China Appraisal Limited	Independent valuer

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

As at the Latest Practicable Date, each of the above experts did not have any interest, direct or indirect, in any assets which since 31 December 2022, the date to which the latest published audited financial statements of the Group were made up, 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.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and references to its name in the form and context in which they respectively appear.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be on display and are published on the websites of the Stock Exchange (**http://www.hkexnews.com**) and the Company (**http://www.anchorstone.com.hk**) for a period of 14 days from the date of this circular:

(a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in this circular;

(b) the letter from the Independent Financial Adviser, the text of which is set out in this circular;

(c) the accountants' report on the Target Group issued by CL Partners CPA Limited, the text of which is set out in Appendix II to this circular;

(d) the report on the unaudited pro forma financial information of the Enlarged Group issued by CL Partners CPA Limited, the text of which is set out in Appendix V to this circular;

(e) the Valuation Report, the text of which is set out in Appendix VI to this circular;

(f) the written consents referred to in the paragraph headed "Expert and Consent" in this appendix; and

(g) the Sale and Purchase Agreement.

11. MISCELLANEOUS

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Unit 1501–02, Delta House, No. 3 On Yiu Street, Shatin, New Territories, Hong Kong.

(c) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(d) The company secretary of the Company is Mr. Fung Wai Hang, a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Chartered Governance Institute and the Chartered Governance Institute.

(e) The English text of this circular and the accompanying form of proxy will prevail over the Chinese text in the event of any inconsistency.

The following are the particulars of the Directors proposed to be re-appointed at the EGM in accordance with the Articles of Association:

Ms. Lui Natalie Po Wai (雷寶蔚) ("Ms. Lui")

Ms. Lui, aged 25, was appointed as a non-executive Director with effect from 23 September 2022 and retired from office on 28 June 2023. Ms. Lui obtained a bachelor's degree from The University of British Columbia in Canada. Ms. Lui is currently the marketing manager at Pacific Marble & Granite Limited, an indirectly wholly-owned subsidiary of the Company, and is responsible for its business promotion and development. Ms. Lui also works at a research company and is responsible for the recruitment and preparation of industry experts for investment firms and management consultancies.

Ms. Lui is a daughter of Mr. Lui Yue Yun Gary (chairman of the Company and an executive Director) and a cousin of Mr. Lui Edwin Wing Yiu (an executive Director).

Subject to the passing of the relevant resolution for the re-appointment of Ms. Lui, Ms. Lui will enter into a letter of appointment with the Company for a term of three years commencing from the date of the passing of the relevant resolution for her re-appointment unless terminated by not less than one month's prior notice in writing served by either party to the other. Ms. Lui will be subject to retirement by rotation and re-election in accordance with the Listing Rules and the Articles of Association. Ms. Lui's annual remuneration as non-executive Director will be HK$120,000, which is agreed between the Company and Ms. Lui and reviewed and approved by the remuneration committee of the Company and the Board with reference to Ms. Lui's roles and responsibilities with the Company and prevailing market conditions. Ms. Lui is also entitled to an annual remuneration of HK$300,000 as marketing manager of Pacific Marble & Granite Limited.

Mr. Nie Kin Kwok Kevin (嚴建國) ("Mr. Nie")

Mr. Nie, aged 68, was appointed as an independent non-executive Director and a member of the audit committee of the Company with effect from 23 September 2022 and retired from office on 28 June 2023. Mr. Nie obtained a bachelor of arts degree from the University of Toronto in Canada. Mr. Nie furthered his education and completed the common professional examination (CPE) in Manchester Polytechnic in England and the Law Society's Final Examination (LSF) in the College of Law, Chester in England. He was admitted as a Solicitor of the High Court of Hong Kong in 1985.

Mr. Nie has vast experience for over 35 years in various legal fields. He was one of the partners of Oldham, Li & Nie, Solicitors from 1986 to 2000 and had set up his own firm Nie & Company, Solicitors (ceased practice) from 2000 to 2005. Mr. Nie has been a consultant for several law firms, including Jesse H.Y. Kwok & Co., Solicitors and Dundons, Solicitors (ceased practice). He is currently a consultant at Cheung Eric & Lau, Solicitors.

On 16 June 2003, Mr. Nie was fined HK$30,000 and censured by the Law Society of Hong Kong for breach of Rules 2 and 4 of the Solicitors' Practice Rules (Chapter 159 subsidiary legislation H of the Laws of Hong Kong) and Principles 2.03 and 4.15 of The Hong

Kong Solicitors' Guide to Professional Conduct (Volume 1, First Edition). The Solicitor Disciplinary Tribunal had found on 7 April 2003 that Mr. Nie, being a partner of his firm, agreed to share and did share the profit costs of his firm with a person who was neither a solicitor practising in Hong Kong, nor a solicitor or other duly qualified legal agent practising in the United Kingdom or in some other part of the Commonwealth (the applicable provision at the time). Apart from this, Mr. Nie has not been found for breach of any professional rules governing Hong Kong legal practitioners since 2003.

Subject to the passing of the relevant resolution for the re-appointment of Mr. Nie, Mr. Nie will enter into a letter of appointment with the Company for a term of three years commencing from the date of the passing of the relevant resolution for his re-appointment unless terminated by not less than one month's prior notice in writing served by either party to the other. Mr. Nie will be subject to retirement by rotation and re-election in accordance with the Listing Rules and the Articles of Association. Mr. Nie's annual remuneration will be HK$120,000, which is agreed between the Company and Mr. Nie and reviewed and approved by the remuneration committee of the Company and the Board with reference to Mr. Nie's roles and responsibilities with the Company and prevailing market conditions.

Save as disclosed above, as at the Latest Practicable Date, each of Ms. Lui and Mr. Nie did not hold any other positions in the Company or any of its subsidiaries or hold any directorship in any listed companies in the past three years preceding the Latest Practicable Date or had other major appointments and professional qualifications, and nor was he/she related to any Directors, senior management, substantial shareholders or controlling shareholders of the Company, or interested in any Shares within the meaning of Part XV of the SFO.

Save as disclosed above, there are no other matters that are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other matters relating to their re-appointment that need to be brought to the attention of the Shareholders.

Anchorstone Holdings Limited
基石控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1592)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Anchorstone Holdings Limited (the "**Company**") will be held at Room 1301, 13/F, One Island South, 2 Heung Yip Road, Aberdeen, Hong Kong on Thursday, 16 November 2023 at 3:00 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the Sale and Purchase Agreement (as defined in the circular dated 25 October 2023 despatched to the shareholders of the Company (the "**Circular**"), a copy of which has been produced to the EGM marked "A" and signed by the chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited having granted approval for the listing of, and permission to deal in the Consideration Shares (as defined in the Circular), the grant of a specific mandate (the "**Specific Mandate**") which shall entitle the directors of the Company (the "**Directors**") to exercise all the powers of the Company to allot and issue the Consideration Shares (as defined in the Circular) to the Vendor (as defined in the Circular) (or as it may direct) pursuant to the terms and conditions of the Sale and Purchase Agreement be and is hereby approved, provided that the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and

(c) the Directors be and are hereby authorised to, on behalf of the Company, do all such acts and things, sign and execute (whether under common seal of the Company or otherwise) such documents or agreements or deeds and take all such steps and actions as they may in their absolute discretion consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder and agree to such variation, amendment or waiver as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole."

2. "**THAT** the authorised share capital of the Company be and is hereby increased from HK$30,000,000 divided into 3,000,000,000 shares of HK$0.01 each (the "**Shares**") to HK$50,000,000 divided into 5,000,000,000 Shares by the creation of an additional 2,000,000,000 Shares (the "**Increase in Authorised Share Capital**"), each ranking *pari passu* in all respects with the existing Shares; and that any one Director be and is hereby authorised to do all such acts and things and execute all such documents which he may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Increase in Authorised Share Capital."

3. "**THAT** the re-appointment of Ms. Lui Natalie Po Wai as a non-executive Director be and is hereby approved and the board of Directors be and is hereby authorised to fix her remuneration."

4. "**THAT** the re-appointment of Mr. Nie Kin Kwok Kevin as an independent non-executive Director be and is hereby approved and the board of Directors be and is hereby authorised to fix his remuneration."

By Order of the Board
Anchorstone Holdings Limited
Fung Wai Hang
Executive Director and Company Secretary

Hong Kong, 25 October 2023

Notes:

1. Any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint person as his/her proxy to attend and vote instead of him/her. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

2. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised on its behalf.

3. Where there are joint registered holders of any shares, any one of such persons may vote at the EGM (or any adjournment thereof), either personally 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 the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

4. In order to be valid, the instrument appointing a proxy and, if requested by the board of directors of the Company, the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.

5. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in a case where the meeting was originally held within 12 months from such date.

6. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

7. The register of members of the Company will be closed from Monday, 13 November 2023 to Thursday, 16 November 2023 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for entitlement to attend and vote at the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Friday, 10 November 2023.

8. A proxy form of the EGM is enclosed in the Circular dated 25 October 2023.

9. BAD WEATHER ARRANGEMENTS: The EGM will be held on Thursday, 16 November 2023 as scheduled regardless of whether or not an amber or red rainstorm warning signal is in force in Hong Kong at any time on that day. However, if a black rainstorm warning signal or a tropical cyclone warning signal no. 8 or above is in force in Hong Kong at 9:30 a.m. on Thursday, 16 November 2023, the EGM will not be held on that day but will be automatically postponed and, by virtue of this notice, be held at the same time and place on Friday, 17 November 2023 instead. Members who have any queries concerning these arrangements, please call the Company at (852) 2511 6668 during business hours from 9:00 a.m. to 5:30 p.m. on Mondays to Fridays, excluding public holidays. Members should make their own decision as to whether they would attend the EGM under bad weather conditions at their own risk having regard to their own situation and if they should choose to do so, they are advised to exercise care and caution.

As at the date of this notice, the executive Directors are Mr. Lui Yue Yun Gary, Mr. Lui Edwin Wing Yiu and Mr. Fung Wai Hang; and the independent non-executive Directors are Mr. Ko Tsz Kin, Mr. Lam Lap Sing and Mr. Wong Yue Fai.