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

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

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CSMall Group Limited
金猫银猫集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1815)

(1) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE:

**(A) ISSUANCE OF NEW SHARES TO PARTICIPANTS OF
NEW EMPLOYEE SHARE SCHEME**

**(B) SUBSCRIPTION BY A STRATEGIC INVESTOR,
MR. YAO RUNXIONG**

**(2) APPLICATION FOR WHITEWASH WAIVER BY
CHINA SILVER AND ITS CONCERT PARTIES**

(3) NOTICE OF EGM

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



红日资本有限公司

RED SUN CAPITAL LIMITED

Capitalized 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 29 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 30 to 31 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 63 of this circular.

A notice convening the EGM to be held at Unit 1415, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong on Friday, 16 August 2019 at 2:00 p.m. is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (en.corp.csmall.com). Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting at the EGM if they so wish.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	7
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	30
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	32
APPENDIX I — FINANCIAL INFORMATION OF THE COMPANY	I-1
APPENDIX II — GENERAL INFORMATION OF THE COMPANY	II-1
APPENDIX III — PROFIT WARNING ANNOUNCEMENT AND REPORTS THEREON	III-1
NOTICE OF EGM	EGM-1

DEFINITIONS

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

“2017 Annual Report”	the 2017 Annual Report of the Company published on 26 April 2018
“2018 Annual Report”	the 2018 Annual Report of the Company published on 29 April 2019
“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Announcement”	the joint announcement of the Company and China Silver dated 6 May 2019 in relation to, among other things, the Issuances, the Specific Mandate and the Whitewash Waiver
“Ascend Delight”	Ascend Delight Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by Ms. Xue and is the subscriber under the Employee Subscription Agreement and the settlor under the Employee Trust Deed
“associate(s)”	has the meaning ascribed thereto in the Takeovers Code
“associated company(ies)”	has the meaning ascribed thereto in the Takeovers Code
“Board”	the board of Directors
“Business Day(s)”	day(s) (other than Saturdays, Sundays and public holidays in Hong Kong) on which banks in Hong Kong are open for general banking business and the Stock Exchange is open for trading of securities
“Chairman Chen”	Mr. CHEN Wantian (陳萬天), the chairman of China Silver and a China Silver Director
“China Silver”	China Silver Group Limited (中國白銀集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 815), which is the holding company of the Company, and together with its subsidiaries as the context may so require
“China Silver Director(s)”	director(s) of China Silver
“Company”	CSmall Group Limited (金貓銀貓集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1815), and together with its subsidiaries as the context may so require

DEFINITIONS

“Concert Group”	China Silver and persons acting in concert or presumed to be acting in concert with it, including Chairman Chen and Ms. Xue
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Continued Consolidation”	the continued treatment of the Company as a subsidiary of China Silver as a result of the Voting Arrangement, which will allow the Group’s financial results, assets, liabilities and cash flows to continue to be consolidated in China Silver’s consolidated financial statements in accordance with the International Financial Reporting Standards
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“core connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Issuances, the Specific Mandate and the Whitewash Waiver
“Employee Issuance”	the issuance of the Employee Shares pursuant to the Employee Subscription Agreement
“Employee Lock-Up Period”	the six-month lock-up period referred to in the paragraph headed “The New Employee Share Scheme — The Employee Subscription Agreement — Lock-up period” in the section headed “Letter from the Board” of this circular
“Employee Share(s)”	the 84,287,040 new Shares to be issued pursuant to the Employee Issuance, or one or some of such Shares as the context may so require
“Employee Subscription Agreement”	the subscription agreement dated 6 May 2019 entered into among the Company (as the issuer), Ascend Delight (as the subscriber) and Ms. Xue (as the guarantor), details of which are set forth in the paragraph headed “The New Employee Share Scheme — The Employee Subscription Agreement” in the section headed “Letter from the Board” of this circular

DEFINITIONS

“Employee Trust Deed”	the trust deed dated 6 May 2019 entered into among Ascend Delight (as the settlor), Ms. Xue (as the trustee) and the Company, details of which are set forth in the paragraph headed “The New Employee Share Scheme — The Employee Trust Deed” in the section headed “Letter from the Board” of this circular
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate thereof
“Existing Employee Share Scheme”	the existing employee share scheme of the Company first adopted in 2016, which was referred to as the “Employee Share Scheme” in the Prospectus
“Existing Scheme Participant(s)”	participant(s) of the Existing Employee Share Scheme, being 58 current or former employees of the Company
“Global Offering”	the global offering of new Shares completed on 13 March 2018, details of which were disclosed in the Prospectus
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“holding company(ies)”	has the meaning ascribed thereto in the Listing Rules
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“in public hands”	has the meaning ascribed thereto in the Listing Rules
“Independent Board Committee”	the independent committee of the Board comprising all the INEDs formed to advise the Independent Shareholders in respect of the Issuances, the Specific Mandate and the Whitewash Waiver
“Independent Financial Adviser”	Red Sun Capital Limited (紅日資本有限公司), a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Issuances, the Specific Mandate and the Whitewash Waiver

DEFINITIONS

“Independent Shareholders”	the Shareholders, to the extent applicable in respect of each resolution to be voted on at the EGM, who are not members of the Concert Group or their respective associates or are not involved or interested in (other than solely as a Shareholder) the transactions contemplated under the Strategic Investor Subscription Agreement, the Employee Subscription Agreement, the Issuances, the Specific Mandate and/or the Whitewash Waiver and are not required to abstain from voting under the Listing Rules and/or the Takeovers Code and therefore permitted to vote in respect of the resolutions to approve the Issuances, the Specific Mandate and/or the Whitewash Waiver at the EGM
“INED(s)”	independent non-executive director(s) of the Company
“Issuances”	collectively, the Strategic Investor Issuance and the Employee Issuance, and also taking into account the Voting Arrangement as the context may so require
“King Tai Fook”	King Tai Fook Jewellery Co., Ltd. (金大福珠寶有限公司), a company incorporated in the PRC with limited liability, of which Mr. Yao is the founder and chairman
“Last Trading Day”	6 May 2019, being the date of the Employee Subscription Agreement, the Employee Trust Deed and the Strategic Investor Subscription Agreement and also the date of publication of the Announcement
“Latest Practicable Date”	26 July 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Mr. Yao”	Mr. YAO Runxiong (姚潤雄), a PRC national and the subscriber under the Strategic Investor Subscription Agreement
“Ms. Xue”	Ms. XUE Meiqi (薛美琪), a PRC national, the guarantor under the Employee Subscription Agreement and the trustee under the Employee Trust Deed
“New Employee Share Scheme”	the employee share scheme adopted by virtue of the Employee Issuance and the constitution of the trust under the Employee Trust Deed
“New Scheme Participant(s)”	participant(s) of the New Employee Share Scheme, being 40 current employees of the Company

DEFINITIONS

“PRC”	the People’s Republic of China, which, for the purposes of this circular, does not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Profit Warning Announcement”	the Company’s announcement dated 2 July 2019 in relation to, among other things, the expected material decrease in the Group’s net profit attributable to owners of the Company for the six months ended 30 June 2019 as compared to that for the six months ended 30 June 2018, which is repeated in full in Appendix III to this circular
“Prospectus”	the prospectus of the Company dated 28 February 2018 in connection with the Global Offering
“Relevant Period”	the period commencing from 6 November 2018, being six months immediately prior to the date of the Announcement, and up to and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Shareholder(s)”	holder(s) of Share(s)
“Share(s)”	ordinary share(s) of US\$0.0001 each in the capital of the Company
“Specific Mandate”	the specific mandate in relation to the allotment and issue of the Strategic Investor Shares and the Employee Shares which is to be granted by the Independent Shareholders to the Board at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Investment”	the subscription of the Strategic Investor Shares by Mr. Yao pursuant to the Strategic Investor Subscription Agreement
“Strategic Investor Issuance”	the issuance of the Strategic Investor Shares pursuant to the Strategic Investor Subscription Agreement
“Strategic Investor Share(s)”	the 100,000,000 new Shares to be issued pursuant to the Strategic Investor Issuance, or one or some of such Shares as the context may so require

DEFINITIONS

“Strategic Investor Subscription Agreement”	the subscription agreement dated 6 May 2019 entered into between the Company (as the issuer) and Mr. Yao (as the subscriber), details of which are set forth in the paragraph headed “The Strategic Investment — The Strategic Investor Subscription Agreement” in the section headed “Letter from the Board” of this circular
“subsidiary(ies)”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong, as amended from time to time
“US\$”	United States dollar(s), the lawful currency of the United States of America
“Voting Arrangement”	Ms. Xue’s agreement pursuant to the Employee Trust Deed that she will exercise the voting rights attached to the Employee Shares in the same manner as China Silver so long as Ascend Delight remains the registered Shareholder of the Employee Shares
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of the Concert Group to make a mandatory general offer to the Shareholders in respect of all the Shares (other than those already owned or agreed to be acquired by the Concert Group) as a result of the Employee Issuance and the Voting Arrangement
“%”	per cent



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CSMall Group Limited
金猫银猫集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1815)

Executive Directors:

Mr. CHEN He (陳和)
(Chairman and co-Chief Executive Officer)
Mr. ZHANG Jinpeng (張金鵬)
(co-Chief Executive Officer)
Mr. QIAN Pengcheng (錢鵬程)

Independent non-executive Directors:

Mr. FU Lui (府磊)
Mr. HU Qilin
Mr. ZHANG Zuhui (張祖輝)

Registered office:

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
George Town
Grand Cayman
KY1-9007
Cayman Islands

Principal place of business in Hong Kong:

Unit 1417, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan, Hong Kong

31 July 2019

To the Shareholders

Dear Sir or Madam,

(1) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE:

**(A) ISSUANCE OF NEW SHARES TO PARTICIPANTS OF
NEW EMPLOYEE SHARE SCHEME**

**(B) SUBSCRIPTION BY A STRATEGIC INVESTOR,
MR. YAO RUNXIONG**

**(2) APPLICATION FOR WHITEWASH WAIVER BY
CHINA SILVER AND ITS CONCERT PARTIES**

(3) NOTICE OF EGM

INTRODUCTION

Reference is made to (i) the Announcement in which it was disclosed that the Company had on 6 May 2019 entered into the Employee Subscription Agreement, the Employee Trust Deed and the Strategic Investor Subscription Agreement in relation to the Issuances; and (ii) the subsequent announcements of the Company dated 24 May 2019 and 2 July 2019 in relation to, among other things, the Company's applications to the Executive pursuant to Rule 8.2 of the Takeovers Code for its consent to extensions of the deadline for the despatch of this circular.

LETTER FROM THE BOARD

The purpose of this circular is to:

- (a) provide further details of the Employee Subscription Agreement, the Employee Trust Deed, the Strategic Investor Subscription Agreement, the Issuances, the Specific Mandate, the Whitewash Waiver and other information as required to be disclosed under the Listing Rules and the Takeovers Code;
- (b) set out (i) the letter of advice from the Independent Board Committee to the Independent Shareholders on the Issuances, the Specific Mandate and the Whitewash Waiver; and (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Issuances, the Specific Mandate and the Whitewash Waiver; and
- (c) give you notice of the EGM.

THE NEW EMPLOYEE SHARE SCHEME

On 6 May 2019, the Company entered into the Employee Subscription Agreement and the Employee Trust Deed with Ascend Delight and Ms. Xue, pursuant to which the Company agreed to allot and issue 84,287,040 new Shares to Ascend Delight (an investment holding vehicle wholly-owned by Ms. Xue), and Ms. Xue agreed to act as the trustee to hold such new Shares on trust for the benefit of 40 New Scheme Participants under the New Employee Share Scheme, whose respective entitlements to Shares are set out in the Employee Trust Deed, subject to the respective terms and conditions therein. Pursuant to the Employee Trust Deed, so long as Ascend Delight is the registered Shareholder of the Employee Shares, Ms. Xue shall exercise the voting rights attached to the Employee Shares in accordance with the Voting Arrangement, whereby she will exercise the voting rights attached to the Employee Shares in the same manner as China Silver.

The principal terms of the Employee Subscription Agreement and the Employee Trust Deed are set forth below.

The Employee Subscription Agreement

Date

6 May 2019 (after trading hours)

Parties

- (i) the Company (as the issuer)
- (ii) Ascend Delight (as the subscriber)
- (iii) Ms. Xue (as the guarantor)

LETTER FROM THE BOARD

The Employee Issuance

Pursuant to the Employee Subscription Agreement, the Company agreed to allot and issue, and Ascend Delight agreed to subscribe for the Employee Shares, being 84,287,040 new Shares, representing 8% of the existing issued share capital of the Company and approximately 6.81% of the issued share capital of the Company as enlarged by the Issuances.

The Employee Shares shall rank equally in all respects with the Shares then in issue on the date of allotment and issue of the Employee Shares.

Consideration

The nominal subscription price of the Employee Shares is HK\$0.85 per Share, which was determined with reference to, and is equivalent to, the closing price of the Shares as quoted on the Stock Exchange on the date of the Employee Subscription Agreement. The total nominal consideration for the Employee Issuance is HK\$71,643,984.

It is expected that the Company will fund the subscription of the Employee Shares. While there will be no cash consideration involved, the subscription of the Employee Shares will be recorded by the Company as share-based payment expenses, as further described in the paragraph headed “Listing Rules implications and financial impacts of the Issuances — Financial impact of the Employee Issuance” below.

Conditions precedent

Completion of the Employee Issuance is conditional upon the following conditions precedent being satisfied:

- (a) the passing of all such resolutions to effect the Employee Issuance as are required under the Listing Rules and the Takeovers Code by the Independent Shareholders at the EGM, including but not limited to the approval of (i) the execution, delivery and performance of the Employee Subscription Agreement and the transactions contemplated thereunder; (ii) the grant of the Specific Mandate in respect of the Employee Issuance; and (iii) the Whitewash Waiver;
- (b) the Executive having granted the Whitewash Waiver, all necessary conditions attached to the Whitewash Waiver (if any) having been satisfied, and the Whitewash Waiver not having been withdrawn; and
- (c) the Listing Committee of the Stock Exchange having granted its approval for the listing of, and permission to deal in, the Employee Shares, and such approval and permission not having been withdrawn prior to the commencement of trading of the Employee Shares on the Main Board of the Stock Exchange.

All of the conditions precedent set out above cannot be waived by the Company, Ascend Delight or Ms. Xue.

LETTER FROM THE BOARD

Completion of the Employee Issuance is not inter-conditional upon completion of the Strategic Investor Issuance.

As at the Latest Practicable Date, none of the above conditions precedent had been fulfilled.

Completion

Completion of the Employee Issuance shall take place on a date falling no later than five Business Days after the satisfaction of the conditions precedent set forth in the sub-paragraph headed “Conditions precedent” above, or such other date and time as may be agreed between the Company and Ms. Xue.

On the date of completion, the Company shall allot and issue the Employee Shares to Ascend Delight, and Ascend Delight shall cause the Employee Shares to become part of the trust property under the trust constituted by the Employee Trust Deed.

Termination

The Employee Subscription Agreement may be terminated in the following manner:

- (a) if the conditions precedent set forth in the sub-paragraph headed “Conditions precedent” above have not been satisfied by 31 August 2019, or such later date as may be agreed between the Company and Ms. Xue; or
- (b) by the Company, Ascend Delight and Ms. Xue, upon their mutual agreement.

Lock-up period

In the Employee Lock-Up Period, being the period of six months commencing on the date of issue of the Employee Shares, (i) Ascend Delight shall not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, the Employee Shares; and (ii) Ms. Xue shall procure Ascend Delight to comply with the above restriction, and shall ignore any instruction from any of the New Scheme Participants to dispose of any of his/her portion of Employee Shares entitled under the Employee Trust Deed.

The Employee Trust Deed

Date

6 May 2019 (after trading hours)

Parties

- (i) Ascend Delight (as the settlor)
- (ii) Ms. Xue (as the trustee)
- (iii) the Company

LETTER FROM THE BOARD

Beneficiaries

The beneficiaries under the trust constituted by the Employee Trust Deed are the New Scheme Participants, being 40 current employees of the Company, none of whom is an existing Shareholder, a Director, a China Silver Director or an Existing Scheme Participant. Ms. Xue is neither a New Scheme Participant, a Director, a China Silver Director nor a director of any subsidiary of the Company or China Silver.

The entitlements of the 40 New Scheme Participants to their respective portions of the Employee Shares have been determined and are set out in the Employee Trust Deed. Moreover, the beneficiaries under the trust constituted by the Employee Trust Deed are restricted to the 40 New Scheme Participants, and the Employee Shares are fully vested once they are issued. Accordingly, the New Scheme Participants are the beneficial owners of the Employee Shares and there is no mechanism for the Employee Shares to be forfeited once they are issued and vested. As such, Ms. Xue is not expected to hold any unallocated Shares in excess or any unvested Shares.

The 40 New Scheme Participants work in various functional departments of the Company, such as products, commodities, procurement, technology, human resources, finance, operations and sales. Each of them was selected and his/her entitlement to Shares was determined with reference to, among other things, (i) the fact that he/she is not an Existing Scheme Participant and is therefore in greater need of Share-based incentives; (ii) the importance of his/her roles and responsibilities to the Company's business plans; (iii) his/her seniority and duration of service; (iv) his/her performance appraisal ratings and any other on-job achievements; and (v) his/her attendance and punctuality records.

Trustee's power

Ms. Xue shall hold the relevant Shares and other cash and non-cash income on trust exclusively for all the New Scheme Participants and shall dispose of a New Scheme Participant's Shares or otherwise deal with any of those Shares or any rights conferred on that New Scheme Participant only in accordance with directions given by or on behalf of that New Scheme Participant.

Subject to the lock-up restriction set forth in the sub-paragraph headed "The Employee Subscription Agreement — Lock-up period" above:

- (a) if a New Scheme Participant intends to hold the Shares he/she is entitled to directly or through his/her nominee, he/she shall notify Ms. Xue and to the extent permitted by applicable laws, Ms. Xue shall transfer to such New Scheme Participant such Shares as so directed; and
- (b) if a New Scheme Participant wants to monetize the Shares to which he/she is entitled, he/she shall notify Ms. Xue and to the extent permitted by applicable laws, Ms. Xue shall sell such number of Shares as the New Scheme Participant has directed Ms. Xue to sell and pay the net disposal proceeds to such New Scheme Participant or such other person as so directed.

LETTER FROM THE BOARD

Funding for subscription of Shares

The subscription or acquisition of Shares will be funded by the Company. In particular, the subscription of the Employee Shares pursuant to the Employee Subscription Agreement will be funded by the Company.

Voting in respect of Shares

So long as the Employee Shares are held by Ascend Delight as the registered Shareholder and Ms. Xue holds such Employee Shares on trust for the New Scheme Participants, Ms. Xue shall have absolute discretion in the exercise of the voting rights attached to such Employee Shares held by her on trust for the New Scheme Participants from time to time. Ms. Xue has agreed that so long as the Employee Shares are held by Ascend Delight as the registered Shareholder and she holds such Employee Shares on trust for the New Scheme Participants, she will agree to the Voting Arrangement, whereby she will exercise the voting rights attached to the Employee Shares in the same manner as China Silver. Where China Silver and/or its associates have a material interest in any resolution(s) to be voted on by the Shareholders at a general meeting of the Company and hence China Silver and its associates are required to abstain from voting on such resolution(s), Ms. Xue will also abstain from voting on such resolution(s) in respect of the Employee Shares held by Ascend Delight at that time.

Other than the aforementioned, there are no other circumstances whereby Ms. Xue's exercise of the voting rights attached to the Employee Shares held by Ascend Delight as the registered Shareholder on trust for the New Scheme Participants is restricted.

Following expiry of the Employee Lock-Up Period, in the event any New Scheme Participant directs Ms. Xue and Ascend Delight (i) that he/she wishes to hold the Shares he/she is entitled to directly or through his/her nominee and Ms. Xue and Ascend Delight act on such directions and transfer the relevant Shares to such New Scheme Participant; or (ii) to monetize the Shares to which he/she is entitled and Ms. Xue and Ascend Delight sell such number of Shares as the New Scheme Participant has directed, then Ms. Xue will no longer be able to direct the exercise of the voting rights attached to such Shares concerned.

THE STRATEGIC INVESTMENT

On 6 May 2019, the Company entered into the Strategic Investor Subscription Agreement with Mr. Yao, pursuant to which the Company agreed to allot and issue, and Mr. Yao agreed to subscribe for, 100,000,000 new Shares at the subscription price of HK\$1.50 per Share for the total consideration of HK\$150,000,000 in cash, subject to the terms and conditions therein.

The principal terms of the Strategic Investor Subscription Agreement are set forth below.

The Strategic Investor Subscription Agreement

Date

6 May 2019 (after trading hours)

LETTER FROM THE BOARD

Parties

- (i) the Company (as the issuer)
- (ii) Mr. Yao (as the subscriber)

The Strategic Investor Issuance

Pursuant to the Strategic Investor Subscription Agreement, the Company agreed to allot and issue, and Mr. Yao agreed to subscribe for the Strategic Investor Shares, being 100,000,000 new Shares, representing approximately 9.49% of the existing issued share capital of the Company and approximately 8.08% of the issued share capital of the Company as enlarged by the Issuances.

The Strategic Investor Shares shall rank equally in all respects with the Shares then in issue on the date of allotment and issue of the Strategic Investor Shares.

Consideration

The aggregate amount of the consideration for the Strategic Investor Issuance payable by Mr. Yao is HK\$150,000,000. The subscription price of the Strategic Investor Shares is HK\$1.50 per Share which represents:

- (i) a premium of approximately 183.0% over the closing price of HK\$0.53 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 76.5% over the closing price of HK\$0.85 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 65.6% over the average of the closing price per Share of HK\$0.906 for the last five trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iv) a premium of approximately 61.6% over the average of the closing price per Share of HK\$0.928 for the last 10 trading days as quoted on the Stock Exchange up to and including the Last Trading Day; and
- (v) a premium of approximately 13.8% over the audited consolidated net asset value of the Company of approximately HK\$1.318 per Share as at 31 December 2018, calculated based on the audited consolidated net asset value of the Company of RMB1,220,035,000 as at 31 December 2018, which is equivalent to approximately HK\$1,389,131,851 based on the approximate exchange rate of RMB1.00 to HK\$1.1386 (as quoted from the website of Hong Kong Monetary Authority (www.hkma.gov.hk) on 31 December 2018), divided by the total number of 1,053,588,000 Shares in issue as at the Last Trading Day (which had remained unchanged as at the Latest Practicable Date).

LETTER FROM THE BOARD

The subscription price was determined after arm's length negotiations between the Company and Mr. Yao on normal commercial terms after taking into account, among other things, the following factors:

- (a) the current and historical market prices of the Shares since the Global Offering — the Company and Mr. Yao have taken into account the prevailing market prices of the Shares as elaborated in (i) to (iv) above, as well as the higher market prices of the Shares during the first few months following the Global Offering (with the closing price per Share from the date of the Company's listing (i.e. 13 March 2018) to the last trading day in the first half of 2018 (i.e. 29 June 2018) ranging from HK\$1.70 to HK\$2.55);
- (b) the historical financial performance of the Company — the Company and Mr. Yao have taken into account the audited consolidated net asset value of the Company as at 31 December 2018 as elaborated in (v) above, as well as the significantly improved profit and profit margin of the Company for the year ended 31 December 2018 (with its gross profit and gross profit margin increasing by approximately 25.4% and 5.5 percentage points, respectively, compared to the year ended 31 December 2017);
- (c) the business prospects of the Company — as explained in the section headed "Management Discussion and Analysis" in the 2018 Annual Report, the Company has been adjusting its sales strategy from the sale of low-margin gold bars to the sale of a more diverse product offering featuring high-margin silver products, and such adjustment has seen initial success in terms of profit and profit margin for the year ended 31 December 2018 as stated in (b) above;
- (d) the current market conditions of the jewellery wholesale and retail sector in the PRC — as explained in the 2018 Annual Report, the changes in Chinese consumers' shopping habits require the support of offline service outlets which provide trial and service functions essential for the shopping experience, and the Company has witnessed a rapid growth of its customer base thanks to its strong offline retail and service network; and
- (e) the potential strategic collaboration between the Company and Mr. Yao and/or King Tai Fook — as explained in the paragraph headed "Reasons for the Issuances and use of proceeds — The Strategic Investor Issuance" below, such collaboration is expected to be mutually complementary and to generate significant synergies, thereby enhancing the competitive position of the Company.

Conditions precedent

Completion of the Strategic Investor Issuance is conditional upon the following conditions precedent being satisfied (or, in the case of (d) below only, waived by the Company):

- (a) the passing of all such resolutions to effect the Strategic Investor Issuance as are required under the Listing Rules and the Takeovers Code by the Independent Shareholders at the

LETTER FROM THE BOARD

EGM, including but not limited to the approval of (i) the execution, delivery and performance of the Strategic Investor Subscription Agreement and the transactions contemplated thereunder; (ii) the grant of the Specific Mandate in respect of the Strategic Investor Issuance; and (iii) the Whitewash Waiver;

- (b) the Executive having granted the Whitewash Waiver, all necessary conditions attached to the Whitewash Waiver (if any) having been satisfied, and the Whitewash Waiver not having been withdrawn;
- (c) the Listing Committee of the Stock Exchange having granted its approval for the listing of, and permission to deal in, the Strategic Investor Shares, and such approval and permission not having been withdrawn prior to the commencement of trading of the Strategic Investor Shares on the Main Board of the Stock Exchange;
- (d) the representations, warranties, undertakings, confirmations and admissions made by Mr. Yao under the Strategic Investor Subscription Agreement being true and accurate and not misleading as at the date of the Strategic Investor Subscription Agreement and the date of completion of the Strategic Investor Issuance, and Mr. Yao not having breached the Strategic Investor Subscription Agreement; and
- (e) the transactions contemplated under the Strategic Investor Subscription Agreement not being prohibited by any laws or regulations or interpretations thereof in Hong Kong, the Cayman Islands or any other jurisdictions applicable to the Company.

The conditions precedent set out in (a), (b), (c) and (e) above cannot be waived by either the Company or Mr. Yao, while the condition precedent set out in (d) above may be waived only by the Company in its absolute discretion.

Completion of the Strategic Investor Issuance is not inter-conditional upon completion of the Employee Issuance.

As at the Latest Practicable Date, none of the above conditions precedent had been fulfilled or waived.

Completion

Completion of the Strategic Investor Issuance shall take place on a date falling no later than 60 Business Days after the satisfaction (or, where applicable, waiver) of the conditions precedent set forth in the sub-paragraph headed “Conditions precedent” above, or such other date and time as may be agreed between the Company and Mr. Yao. the Company and Mr. Yao have agreed that completion of the Strategic Investor Issuance may take place in installments until 31 August 2019.

LETTER FROM THE BOARD

At each completion installment, Mr. Yao shall indicate to the Company the consideration it will pay at such installment. Mr. Yao shall pay such consideration to a bank account designated by the Company and the Company shall allot and issue such number of Shares corresponding to the consideration paid by Mr. Yao.

Termination

The Strategic Investor Subscription Agreement may be terminated in the following manner:

- (a) if the conditions precedent set forth in the sub-paragraph headed “Conditions precedent” above have not been satisfied (or, where applicable, waived) by 31 August 2019, or such later date as may be agreed between the Company and Mr. Yao;
- (b) by the Company, if Mr. Yao is in serious breach of the Strategic Investor Subscription Agreement or if any representation, warranty or undertaking made by Mr. Yao thereunder is untrue or inaccurate in any respect; or
- (c) by the Company and Mr. Yao, upon their mutual agreement.

Lock-up period

In the period of six months commencing on the date of issue of the Strategic Investor Shares, Mr. Yao shall not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, the Strategic Investor Shares.

INFORMATION ON VARIOUS PARTIES TO THE ISSUANCES

The Company is a leading integrated online and offline internet-based jewellery retailer in the PRC, primarily engaged in the design and sale of gold, silver and jewellery products. Please refer to the 2018 Annual Report for the detailed business and financial information of the Company for the year ended 31 December 2018, and the paragraph headed “1. Financial summary” in Appendix I to this circular for the summary financial information of the Company for each of the three financial years ended 31 December 2016, 2017 and 2018.

Your attention is also drawn to the paragraph headed “4. No material change” in Appendix I to this circular and the Profit Warning Announcement which is repeated in full in Appendix III to this circular in relation to certain information on the financial and trading position of the Company subsequent to 31 December 2018.

As at the Latest Practicable Date, the Company was owned as to approximately 47.46% by China Silver and was accounted for as a subsidiary of China Silver.

Ms. Xue and Ascend Delight

Ms. Xue joined the Company in 2013 and is currently a sale manager at the Company. Ascend Delight is an investment holding vehicle wholly-owned by Ms. Xue.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than the Voting Arrangement and being an employee of the Company, each of Ms. Xue and Ascend Delight has no other relationships with the Company, the Concert Group and their respective connected persons, and is a third party independent of the Company and its connected persons.

Mr. Yao

Mr. Yao is an entrepreneur based in the PRC and is the founder and chairman of King Tai Fook. Founded in 1997 and headquartered in Shenzhen, King Tai Fook is an integrated PRC-based jewellery enterprise specialized in the manufacture, processing, wholesale, retail as well as import and export of gold, karat gold, platinum, diamonds, jade and other jewellery accessories.

Mr. Yao is also an executive director of Kingbo Strike Limited (工蓋有限公司), a company engaged in the businesses of solar power station projects, electrical engineering services as well as consumer products and accessories trading, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1421).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Mr. Yao is a third party independent of the Company, the Concert Group and their respective connected persons.

China Silver

China Silver is a leading fully-integrated silver and precious metals enterprise in the PRC with three business segments, including (i) the manufacturing segment, i.e. manufacture and sale of silver ingots and other non-ferrous metals; (ii) the new jewellery retail segment, i.e. the business of the Company; and (iii) the silver exchange segment, i.e. provision of a professional electronic platform and related services for silver trading. Please refer to China Silver's 2018 Annual Report published on 29 April 2019 for the latest business and financial information of China Silver.

The board of directors of China Silver comprises Chairman Chen (i.e. Mr. CHEN Wantian (陳萬天)), Mr. SONG Guosheng (宋國生) and Mr. LIU Jiandong (柳建東) as executive directors, and Mr. SONG Hongbing (宋鴻兵), Mr. LI Haitao (李海濤) and Mr. ZENG Yilong (曾一龍) as independent non-executive directors. As at the Latest Practicable Date, China Silver was owned as to approximately 25.34% by Chairman Chen (partly in his own name and partly through his wholly-owned investment holding vehicle Rich Union Enterprises Limited), being the single largest shareholder of China Silver.

REASONS FOR THE ISSUANCES AND USE OF PROCEEDS

The Employee Issuance and the New Employee Share Scheme

The Global Offering of the Company and its listing on the Stock Exchange in 2018 was a milestone for the Company and its employees. The Directors believe that the Existing Employee Share Scheme, which was first adopted in 2016, has played a pivotal role in incentivizing employees to contribute to the success of the Company over the last few years, including its successful Global Offering.

LETTER FROM THE BOARD

The management of the Company believe that it is important that such benefit be extended to other employees of the Company to demonstrate its appreciation for their efforts and also to provide necessary incentives to align their interests with those of the Company. The value of Share-based incentives is directly linked to the market price of the Shares at the relevant time, which in turn is generally driven by the operating and financial performance of the Company. Accordingly, the New Employee Share Scheme is expected to align the interests of the New Scheme Participants more closely with the interests of the Company and the Existing Scheme Participants, to motivate the New Scheme Participants to bring the Company to new heights once again, and to foster the collegiality and camaraderie among the Company's employees. In light of these expected effects, the Directors believe that the benefits brought about by the Employee Issuance in terms of talent incentivization and retention will outweigh the financial costs described in the paragraph headed "Listing Rules implications and financial impacts of the Issuances — Financial impact of the Employee Issuance" below.

Based on the above, the Directors (including the INEDs after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Employee Subscription Agreement and the Employee Trust Deed are fair and reasonable and that the Employee Issuance is in the interest of the Shareholders as a whole.

The Strategic Investor Issuance

Mr. Yao is the founder and chairman of King Tai Fook, which is a business partner of the Company and which purchases silver jewellery products from the Company. Other than such business relationship, Mr. Yao has no other relationships with the Company. Mr. Yao has no relationship with China Silver, Chairman Chen, Ms. Xue, the New Employee Share Scheme or the New Scheme Participants. Further information on Mr. Yao and King Tai Fook is set forth in the paragraph headed "Information on various parties to the Issuances — Mr. Yao" below.

In order to promote the rapid development of the Company's integrated online and offline new retail platform, the Directors believe that the introduction of Mr. Yao as a strategic Shareholder will give impetus to the all-round strategic collaboration between King Tai Fook and the Company. Building on the strength of the Company's integrated online and offline new retail platform as well as King Tai Fook's powerful offline sales network and abundant industry resources, the strategic collaboration between the Company and Mr. Yao and/or King Tai Fook is expected to be mutually complementary and to generate significant synergies in the following manner:

- (a) **To consolidate the Company's and Mr. Yao's industry resources in the gold, silver and jewellery sector.** In recent years, the Company has actively participated in various industry bodies, including as a deputy member of the standing committee (常務副會長單位) of the Silver Branch under the Gems & Jewelry Trade Association of China (中國珠寶玉石首飾行業協會白銀分會) and as the founder of the Gold and Jewellery Big Data Professional Committee (黃金珠寶大數據專業委員會) under the Shenzhen Big Data Research and Development Association (深圳市大數據研究與應用協會). Meanwhile, having founded King Tai Fook in 1997, Mr. Yao possesses more than two decades of management experience, industry expertise and professional connections. With the consolidation of the

LETTER FROM THE BOARD

Company's and Mr. Yao's rich industry resources, the Company hopes to foster its collaboration with various traditional jewellery brands and enterprises, thereby enhancing the brand coverage and industry influence of the Company's integrated online and offline new retail platform.

- (b) **To expand the Company's offline service network and strengthen King Tai Fook's retail outlets.** Over the years, King Tai Fook has evolved into a nationwide jewellery retail chain with more than 1,000 outlets spanning major cities in the PRC. As explained in the section headed "Chairman's Statement — Prospects" in the 2018 Annual Report, with the changes in Chinese consumers' shopping habits that require the support of offline service outlets, internet enterprises have turned their attention to the offline market. On one hand, the strategic collaboration between King Tai Fook and the Company will enable the Company to rapidly expand its brick-and-mortar sales network and make its offline services such as jewellery fitting and maintenance more accessible to its customers. On the other hand, such strategic collaboration will enrich the product offering of King Tai Fook and boost the footfall at its retail outlets.
- (c) **To empower both the Company and King Tai Fook with big data.** The Company possesses a strong technology research and development team specializing in the development and maintenance of an "intelligent marketing decision support system" dedicated to the jewellery industry. Through collecting and analyzing data from both online platforms and offline stores, such system provides valuable information on customers' behavior and preferences, thereby allowing retailers to gain an insight into operational and business strategies. The installation and application of such system in King Tai Fook's retail outlets will not only provide the Company with access to useful data from a greater number of customers, but also enable King Tai Fook to modernize its traditional jewellery retail business with big data analytics.

LETTER FROM THE BOARD

After deducting all expenses payable by the Company in connection with the Issuances (expected to be approximately HK\$2.5 million), the net proceeds received from the Strategic Investor Issuance are expected to be approximately HK\$147.5 million (representing a net issue price of approximately HK\$1.475 per Share). The Company intends to utilize such net proceeds to further develop its offline sales and service network, thereby further expanding and optimizing its integrated online and offline retail structure, specifically in the following manner:

Intended use of net proceeds	Approximate percentage of net proceeds allocated
(i) To develop its offline sales and experiential shopping network	45%
(ii) To organize brand development and targeted marketing initiatives	10%
(iii) To implement cross-sector marketing campaigns, such as its “CSMall Gift” initiatives which involve cooperation with companies in other sectors including retail, entertainment, commercial banking, telecommunications and insurance	10%
(iv) To carry out technological research and development and upgrade its information technology systems, such as its “intelligent marketing decision support system” described above	10%
(v) To replenish its general working capital for supporting business operations, including:	
(1) To pay professional and other fees in relation to its status as a Hong Kong listed company and also in relation to the Issuances	10%
(2) To pay other administrative expenses, including but not limited to rental expenses as well as salaries and other allowances	15%
Total	<u>100%</u>

Based on the above, the Directors (including the INEDs after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Strategic Investor Subscription Agreement are fair and reasonable and that the Strategic Investor Issuance is in the interest of the Shareholders (including the Independent Shareholders) as a whole.

REASONS FOR THE EMPLOYEE LOCK-UP PERIOD AND THE VOTING ARRANGEMENT

The Employee Lock-Up Period was determined after arm’s length discussions between the Company and the New Scheme Participants after taking into account, among other things, (i) the nature of the Employee Shares as non-cash-based employee compensation to be funded by the Company, where it is fair and reasonable for the New Scheme Participants’ entitlement to such compensation to be subject to a time-based condition; and (ii) the ability of the Employee Lock-Up Period to enhance the motivation effect of the New Employee Share Scheme as explained in (a) below.

LETTER FROM THE BOARD

The Voting Arrangement was included in the Employee Trust Deed as a result of an agreement reached between China Silver and Ms. Xue (being members of the Concert Group) to facilitate the Continued Consolidation. This is because in the absence of the Voting Arrangement, China Silver and Chairman Chen would together control only approximately 41.24% of the voting rights of the Company following completion of the Issuances. China Silver's management, after discussion with China Silver's auditors, is of the view that such circumstances would present a borderline case for China Silver to continue to account for the Company as its subsidiary, which would depend on various factors including but not limited to (i) the relative size and dispersion of the other Shareholders' shareholding at the relevant time; and (ii) whether China Silver has the practical right to appoint the majority of the members of the Board. For the sake of certainty, the Company believes that the Voting Arrangement is necessary to ensure that the Continued Consolidation will be possible for at least the Employee Lock-Up Period. Please refer to the paragraph headed "Listing Rules implications and financial impacts of the Issuances — Continued treatment of the Company as a subsidiary of China Silver" below for details.

Based on the following reasons, the Directors (including the INEDs after taking into account the advice of the Independent Financial Adviser) consider that the Employee Lock-Up Period and the Voting Arrangement are fair and reasonable and are in the interest of the Shareholders (including the Independent Shareholders) as a whole:

- (a) **Enhanced motivation effect of the New Employee Share Scheme.** As detailed in the paragraph headed "Reasons for the Issuances and use of proceeds — The Employee Issuance and the New Employee Share Scheme" below, one of the purposes of the New Employee Share Scheme is to align the interests of the New Scheme Participants with those of the Company. The Company believes that such alignment of interests is critical to incentivizing the New Scheme Participants to work together with management towards the performance targets of the Company. The Employee Lock-Up Period and the Voting Arrangement serve to motivate the New Scheme Participants to focus on attaining the Company's development goals for at least the remainder of 2019, following which they can choose to either monetize the economic benefits or remain as a Shareholder and exercise the voting rights attached to the Employee Shares.
- (b) **Branding and marketing benefits of remaining as a subsidiary of China Silver.** With the Continued Consolidation, the Company will continue to benefit from the group branding and marketing efforts of China Silver, which are in addition to and complementary with the Company's separate listing status and its own branding and marketing efforts. Since 2014, China Silver has promoted the Company's business as its "proprietary online sales platform", "O2O business" or "New Jewellery Retail segment" in its corporate communications. Since 2016, the Company's business has been positioned as a vital driving force for China Silver's mission to become a "leading fully-integrated silver and precious metals enterprise in the PRC". Through such branding and marketing efforts, the Company (or its predecessor entities prior to the Global Offering) has gradually made itself known to, and gained recognition from, its customers and business partners as well as the investing public. By remaining as part of the China Silver group, the Company will continue to enjoy such branding and marketing benefits, thereby maintaining the Company's brand awareness.

LETTER FROM THE BOARD

- (c) **Efficiencies and synergies of remaining as a subsidiary of China Silver.** With the Continued Consolidation, the interests of China Silver and the Company will remain aligned. The Company believes that by remaining a subsidiary of China Silver, there will continue to be incentives for both parties to facilitate greater synergies and achieve efficiencies between them. The non-exempt connected transactions between the Company and China Silver amounted to approximately RMB403.4 million (exclusive of value-added tax) for the financial year ended 31 December 2018, in the form of the Company's purchase of silver ingots from China Silver. As these silver ingots are used by the Company to manufacture silver products for sale, it is important that these transactions continue to be transacted on terms that are favourable to the Company and that supply remains stable. Separately, in general, lenders are more willing to lend on more favourable terms to borrowers whose parent companies are listed and are substantive, and therefore the Company believes that having China Silver continue to be its holding company will allow it to maintain its standing in the eyes of potential lenders.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had 1,053,588,000 Shares in issue and did not have outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares. Based on the number of 184,287,040 Shares to be allotted and issued under the Issuances and assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Issuances, the number of Shares in issue will increase from 1,053,588,000 Shares to 1,237,875,040 Shares upon Issuances, and the shareholding of the Independent Shareholders (which hold 543,108,431 Shares in total) would be diluted from approximately 51.55% to approximately 43.87%, representing a dilution effect of approximately 7.67% as a result of the Issuances. Notwithstanding the potential dilution impact on the Independent Shareholders' shareholding, taking into account the reasons set out in "Reasons for the Issuances and use of proceeds" above, the Directors (including the INEDs after taking into account the advice of the Independent Financial Adviser) consider that the Issuances in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

For reasons set forth in the paragraph headed “Listing Rules implications and financial impacts of the Issuances — Continued treatment of the Company as a subsidiary of China Silver” below, it is expected that completion of the Employee Issuance will take place no later than completion of the Strategic Investor Issuance. For illustration purposes, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Employee Issuance but before completion of the Strategic Investor Issuance; (iii) immediately after completion of both the Employee Issuance and the Strategic Investor Issuance; and (iv) immediately after completion of the Strategic Investor Issuance only (assuming that completion of the Employee Issuance does not take place), in each case assuming that no other Shares are issued or repurchased in the interim:

	(i) As at the Latest Practicable Date	(ii) Immediately after completion of the Employee Issuance but before completion of the Strategic Investor Issuance	(iii) Immediately after completion of both the Employee Issuance and the Strategic Investor Issuance	(iv) Immediately after completion of the Strategic Investor Issuance only (assuming that completion of the Employee Issuance does not take place)
	Number of Shares	Approximate %	Number of Shares	Approximate %
Controlling Shareholder				
China Silver	500,000,033	47.46%	500,000,033	43.94%
China Silver Director				
Chairman Chen ⁽¹⁾ , partly in his own name and partly through Rich Union Enterprises Limited ⁽²⁾	10,479,536	0.99%	10,479,536	0.92%
Trustee in respect of the New Employee Share Scheme				
Ms. Xue, through Ascend Delight ⁽³⁾ (holding the Shares for the benefit of 40 New Scheme Participants)	—	—	84,287,040	7.41%
Concert Group subtotal⁽⁶⁾	510,479,569	48.45%	594,766,609	52.27%⁽⁵⁾
Directors				
Mr. CHEN He (陳和) ⁽¹⁾ , through Silver Apex Holdings Limited ⁽³⁾	21,250,000	2.02%	21,250,000	1.87%
Mr. QIAN Pengcheng (錢鵬程), through Treasure Delight International Limited ⁽³⁾	14,500,000	1.38%	14,500,000	1.27%
Mr. ZHANG Jimpeng (張金鵬), through Diamond Port Holdings Limited ⁽³⁾	12,500,000	1.19%	12,500,000	1.10%
Trustee in respect of the Existing Employee Share Scheme⁽⁴⁾				
Mr. LIN Ting (林挺), through Blaze Loop Limited ⁽³⁾ (holding the Shares for the benefit of himself)	14,500,000	1.38%	14,500,000	1.27%
Mr. LIN Ting (林挺), through Blaze Loop Limited ⁽³⁾ (holding the Shares for the benefit of other 57 Existing Scheme Participants)	151,525,000	14.38%	151,525,000	13.32%
Strategic investor				
Mr. Yao	—	—	100,000,000	8.08%
Others				
Other public Shareholders	328,833,431	31.21%	328,833,431	28.90%
Non-Concert Group subtotal ⁽⁶⁾	543,108,431	51.55%	543,108,431	47.73%
Total⁽⁶⁾	1,053,588,000	100%	1,237,875,040	100%
Of which, total of Shares held in public hands⁽⁶⁾⁽⁷⁾	505,337,967	47.96%	505,337,967	44.41%
			605,337,967	48.90%
			510,479,569	44.25%

LETTER FROM THE BOARD

Notes:

- (1) Mr. CHEN He (陳和) is the nephew of Chairman Chen. It should be noted that Chairman Chen, being a director of China Silver (the holding company of the Company) but not the Company itself, is not a core connected person of the Company. Therefore, the Shares held by Chairman Chen are not excluded from the Shares held in public hands pursuant to Rule 8.24 of the Listing Rules.
- (2) Among the 10,479,536 Shares owned by Chairman Chen, 17,500 Shares are held in his own name, and 10,462,036 Shares are held through his wholly-owned investment holding vehicle Rich Union Enterprises Limited.
- (3) Each of these named companies is a wholly-owned investment holding vehicle of the relevant individual.
- (4) As stated on page 88 of the Prospectus, Mr. LIN Ting (林挺) as trustee shall seek irrevocable directions from each Existing Scheme Participant regarding the exercise of voting rights attached to his/her interest in the Shares and shall comply with such directions, provided that if he does not receive an Existing Scheme Participant's directions by any deadline specified in writing, he shall abstain from voting that Existing Scheme Participant's interest in the Shares.
- (5) In the event that only the Employee Issuance but not the Strategic Investor Issuance is completed, the aggregate shareholding of the Concert Group in the Company will exceed 50%. Under such circumstances, the Concert Group may further increase its shareholding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.
- (6) Due to rounding, individual percentages may not add up to the total or subtotal shown in the table.
- (7) The Shares held in public hands are denoted by dotted rectangles in the table.

LISTING RULES IMPLICATIONS AND FINANCIAL IMPACTS OF THE ISSUANCES

Continued treatment of the Company as a subsidiary of China Silver

Reference is made to note 14 to China Silver's condensed consolidated financial statements for the six months ended 30 June 2018 on page 62 of China Silver's 2018 Interim Report published on 27 September 2018 and note 42(iv) to China Silver's consolidated financial statements for the year ended 31 December 2018 on pages 141 to 142 of China Silver's 2018 Annual Report published on 29 April 2019, where the China Silver Directors were of the view that China Silver did not lose control over the Company following the Global Offering. China Silver's auditors issued an independent auditor's report on the aforesaid China Silver's consolidated financial statements for the year ended 31 December 2018, the text of which report is set out on pages 50 to 53 of the aforesaid China Silver's 2018 Annual Report.

Following completion of the Issuances and with the Voting Arrangement in place, the Concert Group will together control approximately 48.05% of the voting rights of the Company. So long as completion of the Employee Issuance takes place no later than completion of the Strategic Investor Issuance and the Voting Arrangement is in place, the Concert Group's percentage control of the voting rights of the Company will not fall below approximately 48.05% at any point in time. In light of the arrangements described in the paragraph headed "The New Employee Share Scheme — The Employee Trust Deed — Voting in respect of Shares" above, China Silver's management, after discussion with China Silver's auditors, has confirmed that China Silver may continue to account for the Company as its subsidiary following completion of the Issuances. China Silver's management will monitor the situation closely by looking into various factors including but not limited to (i) the relative size and dispersion of the other Shareholders' shareholding at the relevant time; and (ii) whether China Silver has the practical right to appoint the majority of the members of the Board.

LETTER FROM THE BOARD

China Silver's management is aware of the implications of the transfer or sale of Shares which may happen following expiry of the Employee Lock-Up Period (as detailed in the paragraph headed "The New Employee Share Scheme — The Employee Trust Deed — Voting in respect of Shares" above) on its continued treatment of the Company as its subsidiary. China Silver's management will monitor the situation closely and, as and when necessary, discuss with China Silver's auditors and make such announcements and disclosures as required by the relevant laws, rules and regulations.

If for any reason completion of the Strategic Investor Issuance takes place without completion of the Employee Issuance also taking place, then Ms. Xue (through Ascend Delight) would not hold any Shares while China Silver and Chairman Chen would together control only approximately 44.25% of the voting rights of the Company. Under such circumstances (and assuming that there are no other changes to the shareholding in the Company), China Silver's management, after discussion with China Silver's auditors, is of the view that China Silver would still be able to continue to account for the Company as its subsidiary. China Silver's management will monitor the situation closely by looking into various factors including but not limited to (i) the relative size and dispersion of the other Shareholders' shareholding at the relevant time; and (ii) whether China Silver has the practical right to appoint the majority of the members of the Board.

Issue of new Shares under the Specific Mandate

The Issuances will be conducted under the Specific Mandate, and are therefore subject to approval by the Independent Shareholders at the EGM.

There had not been any equity fundraising activity conducted by the Company in the past 12 months immediately preceding the Latest Practicable Date.

The Company had not bought back any Shares within the last six months prior to the Latest Practicable Date.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Strategic Investor Shares and the Employee Shares.

Financial impact of the Employee Issuance

As stated in the paragraph headed "The New Employee Share Scheme — The Employee Subscription Agreement — Consideration" above, it is expected that the Company will fund the subscription of the Employee Shares. Given that each New Scheme Participant's entitlement to his/her portion of Employee Shares has been determined, it is expected that the fair value of the Employee Shares (with reference to, among other things, the market price of the Shares and the Employee Lock-Up Period) will impact the Company's consolidated statement of profit or loss and other comprehensive income as "share-based payment expenses" to be recorded on or around the date of the EGM, assuming that all necessary resolutions for the Employee Issuance are duly passed at the EGM. On the other hand, the issuance of the Employee Shares will also impact the Company's consolidated statement of financial position as an increase in "share capital" and "reserves".

LETTER FROM THE BOARD

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

Application for the Whitewash Waiver

As at the Latest Practicable Date, China Silver and Chairman Chen together held 510,479,569 Shares, representing approximately 48.45% of the total issued share capital of the Company.

Ms. Xue, China Silver and Chairman Chen will, as a result of the Voting Arrangement, become parties acting in concert and immediately after the Employee Issuance, the Concert Group will hold approximately 52.27% of the total issued share capital of the Company. Therefore, the Employee Issuance and the Voting Arrangement have the effect of increasing their collective shareholding of voting rights of the Company by more than 2%. Accordingly, in the absence of the Whitewash Waiver, the Concert Group would incur an obligation pursuant Rule 26 of the Takeovers Code to make a mandatory general offer to the Shareholders to acquire all the Shares (other than those already owned or agreed to be acquired by the Concert Group). An application has been made by the Concert Group to the Executive for the grant of the Whitewash Waiver pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code.

The Whitewash Waiver, if granted by the Executive, will be subject to the condition that respective resolutions relating to the Whitewash Waiver and the Issuances being approved by at least 75% and more than 50%, respectively, of the votes cast by the Independent Shareholders by way of poll at the EGM. **As the Concert Group does not have any intention or plan to make a general offer in respect of the Shares, in the event that the Whitewash Waiver is not granted by the Executive or, if granted, is not approved by the Independent Shareholders, the Concert Group and the Company do not intend to proceed with the Issuances even if either or both of the Issuances is/are approved by the Independent Shareholders.**

As at the Latest Practicable Date, the Company did not believe that the Issuances and/or the Whitewash Waiver give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Issuances and/or the Whitewash Waiver do not comply with other applicable rules and regulations.

Furthermore, the Company notes that the Whitewash Waiver will not be granted or, if granted, will be invalidated if, without the prior consent of the Executive, any acquisitions or disposals of voting rights in the Company are made by any member of the Concert Group in the period between the date of the Announcement and the date of completion of the Issuances.

If the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, the Concert Group will be deemed to have a lowest percentage holding equal to its percentage holding immediately after the Issuances, being 48.05% of the enlarged share capital of the Company. As the shareholding of the Concert Group in the Company upon the completion of the Issuances is not less than 30% but not more than 50%, any acquisition of additional voting rights by any member(s) of the Concert Group of more than 2% by reference to the lowest percentage holding in the 12 month period ending on the date of the completion of Issuances subsequent to the Issuances

LETTER FROM THE BOARD

will trigger an obligation of such member(s) of the Concert Group to make a mandatory general offer for all the issued Shares not already owned by it/them or parties acting in concert with it/them under Rule 26 of the Takeovers Code, unless a whitewash waiver is granted by the Executive and approved by the independent Shareholders of that acquisition.

As at the Latest Practicable Date, in connection with the Issuances:

- (a) other than the consideration paid for the Issuances, there was no other consideration, compensation or benefit in whatever form paid or to be paid (i) by the Concert Group to any other Shareholder and/or any party acting in concert with it; or (ii) by the Company and/or any party acting in concert with it to any Shareholder and/or any party acting in concert with it;
- (b) there was no other understanding, arrangement, agreement or special deal between any Shareholder and/or any party acting in concert with it on the one hand, and the Company and/or any party acting in concert with it on the other hand; and
- (c) there was no understanding, arrangement or agreement or special deal between any Shareholder and/or any party acting in concert with it on the one hand, and the Concert Group on the other hand.

Formation of the Independent Board Committee

Pursuant to the Takeovers Code, the Independent Board Committee (comprising all the INEDs) has been formed to advise the Independent Shareholders as to whether the Issuances, the Specific Mandate and the Whitewash Waiver are fair and reasonable, and to make recommendations on voting. Please refer to pages 30 to 31 of this circular for the letter of advice from the Independent Board Committee.

Appointment of the Independent Financial Adviser

The Independent Financial Adviser has been appointed with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders as to whether the Issuances, the Specific Mandate and the Whitewash Waiver are fair and reasonable, and to make recommendations on voting. Please refer to pages 32 to 63 of this circular for the letter of advice from the Independent Financial Adviser.

THE EGM

Set out on pages EGM-1 to EGM-4 of this circular is a notice convening the EGM to be held at Unit 1415, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong on Friday, 16 August 2019 at 2:00 p.m. by the Company for the Independent Shareholders to consider and, if thought fit, approve the Issuances, the Specific Mandate and the Whitewash Waiver.

LETTER FROM THE BOARD

Members of the Concert Group (comprising China Silver, Chairman Chen and Ms. Xue) and their respective associates (including Chairman Chen's wholly-owned investment holding vehicle Rich Union Enterprises Limited, and Ms. Xue's wholly-owned investment holding vehicle Ascend Delight), as well as any other Shareholder who is involved or interested in or related to the transactions contemplated under the Strategic Investor Subscription Agreement, the Employee Subscription Agreement, the Issuances, the Specific Mandate and/or the Whitewash Waiver, will be required to abstain from voting in respect of the resolutions to approve the Issuances, the Specific Mandate and the Whitewash Waiver at the EGM. As at the Latest Practicable Date, the shareholding of members of the Concert Group and their respective associates in the Company was as follows: (i) China Silver held 500,000,033 Shares, representing approximately 47.46% of the existing issued share capital of the Company; (ii) Chairman Chen (partly in his own name and partly through Rich Union Enterprises Limited) held 10,479,536 Shares, representing approximately 0.99% of the existing issued share capital of the Company; and (iii) Ms. Xue and Ascend Delight did not hold any Shares.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for the Concert Group and their respective associates who in aggregate held 510,479,569 Shares, representing approximately 48.45% of the existing issued share capital of the Company as at the Latest Practicable Date, no other Shareholder had a material interest in respect of the resolutions to approve the Issuances, the Specific Mandate and the Whitewash Waiver at the EGM and no other Shareholder would be required to abstain from voting at the EGM in respect of the resolutions to approve the Issuances, the Specific Mandate and the Whitewash Waiver at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by 2:00 p.m. on Wednesday, 14 August 2019 or not less than 48 hours before the time appointed for holding any adjournment the EGM to the office of the Company's branch share registrar and transfer office in Computershare Hong Kong Investor Limited at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. 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 should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

The resolutions proposed to be approved at the EGM will be taken by poll. **Under the Takeovers Code, the resolutions relating to the Whitewash Waiver and the Issuances shall be approved by at least 75% and more than 50%, respectively, of the votes that are cast either in person or by proxy by the Independent Shareholders at the EGM.** An announcement on the results of the EGM will be made by the Company thereafter in accordance with the Listing Rules and Takeovers Code.

RECOMMENDATION

The Directors (including the INEDs after taking into account the advice of the Independent Financial Adviser) believe that the Issuances, the Specific Mandate and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the INEDs after taking into account the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of the resolutions to approve the Issuances, the Specific Mandate and the Whitewash Waiver at the EGM.

LETTER FROM THE BOARD

Shareholders are advised to read carefully the letter from the Independent Board Committee on pages 30 to 31 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 32 to 63 of this circular, considers that the Issuances, the Specific Mandate and the Whitewash Waiver are fair and reasonable insofar as the Company and the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Issuances, the Specific Mandate and the Whitewash Waiver at the EGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
CSMall Group Limited
CHEN He
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Issuances, the Specific Mandate and the Whitewash Waiver.



CSMall Group Limited 金貓銀貓集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1815)

31 July 2019

To the Independent Shareholders

Dear Sir or Madam,

(1) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE:

**(A) ISSUANCE OF NEW SHARES TO PARTICIPANTS OF
NEW EMPLOYEE SHARE SCHEME**

**(B) SUBSCRIPTION BY A STRATEGIC INVESTOR,
MR. YAO RUNXIONG**

**(2) APPLICATION FOR WHITEWASH WAIVER BY
CHINA SILVER AND ITS CONCERT PARTIES**

(3) NOTICE OF EGM

We refer to the circular of the Company dated 31 July 2019 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalized terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the Issuances, the Specific Mandate and the Whitewash Waiver are fair and reasonable insofar as the Independent Shareholders are concerned. Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice to you and us on pages 32 to 63 of the Circular, we are of the opinion that the Issuances, the Specific Mandate and the Whitewash

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Waiver are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Issuances, the Specific Mandate and the Whitewash Waiver.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. FU Lui

*Independent non-executive
Director*

Mr. HU Qilin

*Independent non-executive
Director*

Mr. ZHANG Zuhui

*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders regarding the Issuances, the Specific Mandate and the Whitewash Waiver for the purpose of inclusion in this circular.



红日资本有限公司
RED SUN CAPITAL LIMITED

31 July 2019

To: *The Independent Board Committee and the Independent Shareholders*

Dear Sir/ Madam,

- (1) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE:**
**(A) ISSUANCE OF NEW SHARES TO PARTICIPANTS OF
NEW EMPLOYEE SHARE SCHEME**
(B) SUBSCRIPTION BY A STRATEGIC INVESTOR, MR. YAO RUNXIONG
- (2) APPLICATION FOR WHITEWASH WAIVER BY
CHINA SILVER AND ITS CONCERT PARTIES**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Issuances, the Specific Mandate and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 31 July 2019 issued by the Company (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, on 6 May 2019, the following transactions took place:

- (i) **New Employee Share Scheme.** The Company entered into the Employee Subscription Agreement and the Employee Trust Deed with Ascend Delight and Ms. Xue, pursuant to which the Company agreed to allot and issue 84,287,040 new Shares to Ascend Delight (an investment holding vehicle wholly-owned by Ms. Xue), and Ms. Xue agreed to act as the trustee to hold such new Shares on trust for the benefit of 40 New Scheme Participants under the New Employee Share Scheme, whose respective entitlements to Shares are set out in the Employee Trust Deed, subject to the respective terms and conditions therein.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the Employee Trust Deed, so long as Ascend Delight is the registered Shareholder of the Employee Shares, Ms. Xue shall exercise the voting rights attached to the Employee Shares in accordance with the Voting Arrangement whereby she will exercise the voting rights attached to the Employee Shares in the same manner as China Silver.

- (ii) **Strategic Investment.** The Company entered into the Strategic Investor Subscription Agreement with Mr. Yao, pursuant to which the Company agreed to allot and issue, and Mr. Yao agreed to subscribe for, 100,000,000 new Shares at the subscription price of HK\$1.50 per Share for the total consideration of HK\$150,000,000 in cash, subject to the terms and conditions therein.

The Issuances will be conducted under the Specific Mandate, and are therefore subject to approval by the Independent Shareholders at the EGM. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Strategic Investor Shares and the Employee Shares.

Members of the Concert Group and their respective associates, as well as any other Shareholder who is involved or interested in the transactions contemplated under the Strategic Investor Subscription Agreement, the Employee Subscription Agreement, the Issuances, the Specific Mandate and/or the Whitewash Waiver, will be required to abstain from voting in respect of the resolutions to approve the Issuances, the Specific Mandate and the Whitewash Waiver at the EGM.

Continued treatment of the Company as a subsidiary of China Silver

Reference is made to note 14 to China Silver's condensed consolidated financial statements for the six months ended 30 June 2018 on page 62 of China Silver's interim report for the six months ended 30 June 2018 published on 27 September 2018 and note 42(iv) to China Silver's consolidated financial statements for the year ended 31 December 2018 on pages 141 to 142 of China Silver's annual report for the year ended 31 December 2018 published on 29 April 2019, where the China Silver Directors were of the view that China Silver did not lose control over the Company following the Global Offering. China Silver's auditors issued an independent auditor's report on the aforesaid China Silver's consolidated financial statements for the year ended 31 December 2018, the text of which report is set out on pages 50 to 53 of the aforesaid China Silver's 2018 Annual Report.

As disclosed in the Letter from the Board, following completion of the Issuances and with the Voting Arrangement in place, the Concert Group will together control approximately 48.05% of the voting rights of the Company. So long as completion of the Employee Issuance takes place no later than completion of the Strategic Investor Issuance and the Voting Arrangement is in place, the Concert Group's percentage control of the voting rights of the Company will not fall below approximately 48.05% at any point in time. In light of the arrangements under the Voting Arrangement, China Silver's management, after discussion with China Silver's auditors, has confirmed that China Silver may continue to account for the Company as its subsidiary following completion of the Issuances. China Silver's management will monitor the situation closely by looking into various factors including but not limited to (i) the relative size and dispersion of the other Shareholders' shareholding at the relevant time; and (ii) whether China Silver has the practical right to appoint the majority of the members of the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Letter from the Board, China Silver's management is aware of the implications of the transfer or sale of Shares which may happen following expiry of the Employee Lock-Up Period on its continued treatment of the Company as its subsidiary. China Silver's management will monitor the situation closely and, as and when necessary, discuss with China Silver's auditors and make such announcements and disclosures as required by the relevant laws, rules and regulations.

If for any reason completion of the Strategic Investor Issuance takes place without completion of the Employee Issuance also taking place, then Ms. Xue (through Ascend Delight) would not hold any Shares while China Silver and Chairman Chen would together control only approximately 44.25% of the voting rights of the Company. Under such circumstances (and assuming that there are no other changes to the shareholding in the Company), China Silver's management, after discussion with China Silver's auditors, is of the view that China Silver would still be able to continue to account for the Company as its subsidiary. China Silver's management will monitor the situation closely by looking into various factors including but not limited to (i) the relative size and dispersion of the other Shareholders' shareholding at the relevant time; and (ii) whether China Silver has the practical right to appoint the majority of the members of the Board.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all INEDs, namely, Mr. FU Lui, Mr. HU Qilin and Mr. ZHANG Zuhui, has been established to advise the Independent Shareholders as to whether the terms of the Issuances, the Specific Mandate and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and to make a recommendation on voting at the EGM.

We, Red Sun Capital Limited ("**Red Sun Capital**"), have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee pursuant to the relevant Takeovers Code and the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in relation to the Issuances, the Specific Mandate and the Whitewash Waiver.

OUR INDEPENDENCE

As at the Latest Practicable Date, Red Sun Capital was independent from and not connected with the Company, China Silver, their respective substantial shareholders, Chairman Chen, Mr. Yao, Ms. Xue, and any party acting in concert, or presumed to be acting in concert, with any of them, and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders. Save for our appointment as the Independent Financial Adviser, Red Sun Capital did not act as an independent financial adviser to the Company under the Listing Rules in the past two years. We are not in the same group as the financial or other professional adviser to the Company, China Silver, their respective substantial shareholders, Chairman Chen, Mr. Yao and Ms Xue and/or parties acting in concert with any of them. We do not have a significant connection, financial or otherwise, with either China Silver/ the Company or the controlling shareholders of either of them, within the two years prior to the date of the Announcement, of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect the objectivity

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of our advice under the Takeovers Code. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the abovementioned parties or any party acting in concert, or presumed to be acting in concert, with any of them.

BASIS OF OUR OPINION

In formulating our advice and recommendation, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or the Directors and/or its senior management staff (the “**Management**”). We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular or otherwise provided or made or given by the Group and/or the Directors and/or the Management and for which they are solely responsible were true, accurate and complete in all material respects at the time they were made and given and continue to be true, accurate and complete in all material respects as at the Latest Practicable Date and the Shareholders will be notified of any material changes (if any) subsequent to the Latest Practicable Date as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Directors and/or the Management contained in the Circular have been reasonably made after due and careful enquiry.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company, the Concert Group, Ascend Delight, the beneficiaries under the trust constituted by the Employee Trust Deed, the trust itself, Mr. Yao, King Tai Fook and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into consideration the following principal factors and reasons:

1. Business and financial overview of the Company

The Company is a leading integrated online and offline internet-based jewellery retailer in the PRC, primarily engaged in the design and sale of gold, silver and jewellery products. Set out below is a summary of the financial performance of the Group for the three years ended 31 December 2018, which were extracted from the 2017 Annual Report and the 2018 Annual Report:

	For the year ended 31 December		
	2018	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue			
Online sales channels	1,699,050	2,648,352	1,950,528
Offline sales and service network	715,786	851,266	514,236
CSMall gift initiatives	83,013	19,963	527
Total revenue	2,497,849	3,519,581	2,465,291
Cost of sales	(2,182,667)	(3,268,296)	(2,315,776)
Gross profit	315,182	251,285	149,515
Profit before tax	196,641	139,498	64,676
Profit for the year attributable to owners of the Company	142,677	101,305	50,264

As disclosed in the 2018 Annual Report, for the year ended 31 December 2018, the revenue generated from online sales channels of the Group amounted to approximately RMB1,699.1 million (2017: RMB2,648.4 million), representing a decrease of approximately 35.8%, as the Group adjusted its sales strategy and shifted its focus from the sale of low-margin gold bars to the sale of a more diverse product offering and the promotion of high-margin jewellery. The revenue generated from offline sales and service network of the Group amounted to approximately RMB715.8 million (2017: RMB851.3 million), representing a decrease of approximately 15.9%, such decrease was mainly due to the sales strategy to reduce the scale of discount sale of low-margin gold bars and the increase the overall sales volume of high-margin silver products. Through the innovative business model of third-party offline point of sales, the CSMall gift concept started to grow and the revenue from the CSMall gift initiatives for the year ended 31 December 2018 amounted to approximately RMB83.0 million (2017: RMB20.0 million). Profit attributable to owners of the Company increased significantly from approximately RMB101.3 million for the year ended 31 December 2017 to approximately RMB142.7 million for the year ended 31 December 2018 mainly due to (i) the increase in gross profit which was generally attributable to the decrease in cost of purchasing gold bars under the change in sales strategy mentioned above; and (ii) the increase in other income due to the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

recognition of net exchange gain of approximately RMB16.5 million for the year ended 31 December 2018 as compared to the net exchange loss of approximately RMB5.3 million for the year ended 31 December 2017, which was generally attributable to the appreciation of RMB in 2018 against Hong Kong dollars.

As set out in the 2017 Annual Report, for the year ended 31 December 2017 the revenue generated from online sales channels of the Group amounted to approximately RMB2,648.4 million (2016: RMB1,950.5 million), representing an increase of approximately 35.8%, which was primarily attributable to the increase in the sales of various types of jewellery products, including gold products. The revenue generated from offline sales and service network of the Group amounted to approximately RMB851.3 million (2016: RMB514.2 million), representing an increase of approximately 65.5%, which was mainly due to the expansion of the Company's shops, in particular, the granting of franchise stores by the Company, as the Company added a new multi-brand franchisee, Zhejiang Hengyin* (浙江恒銀). The Group also added a dedicated section on self-operated online platform for the Company's gift initiatives, featuring detailed product descriptions. Revenue generated from the Company's gift initiatives for the year ended 31 December 2017 amounted to approximately RMB20.0 million (2016: RMB0.5 million). Profit attributable to owners of the Company increased significantly from approximately RMB50.3 million to approximately RMB101.3 million for the year ended 31 December 2017, which was mainly due to increase in revenue for the reasons stated above and partially offset by listing expenses recognised.

2. Overview of the PRC economic and the jewellery retail market in the PRC

The PRC recorded notable economic growth in the recent years. Cities such as Beijing, Shanghai and Shenzhen developed rapidly and continued to attract sizeable foreign investments. The PRC government also implemented various policies, such as the establishment of free trade zones, to facilitate economic growth. Pursuant to the Thirteenth Five Year Plan* (十三五規劃), the targeted annual gross domestic product ("GDP") growth of the PRC for the next five years from 2016 has been set at approximately 6.5%. However, such target was subsequently adjusted to 6.0% to 6.5% by the PRC government in March 2019. Based on data published by the National Bureau of Statistics of China (data.stats.gov.cn), the estimated GDP for 2018 represented an increase of approximately 6.6% compared to the GDP for 2017. However, there are uncertainties around the ongoing trade negotiations between the PRC and the United States of America.

We also reviewed a publication by the research department of Hong Kong Trade Development Council titled "China's Jewellery Market" on 8 July 2019 (<http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Jewellery-Market/ccm/en/1/X000000/1X002MMK.htm>) (the "HKTDC Research Article"). According to the HKTDC Research Article, the jewellery retail sales (including the jewellery made from gold and silver) in the PRC, from business whose retail sales are above RMB5 million, totalled RMB319 billion in 2018, representing a year-on-year increase of approximately 7.4% compared to that in 2017. Furthermore, it is also noted that gold consumption in the PRC in 2018 increased by approximately 5.7% year-on-year to 1,151 tons compared to that in 2017. As discussed with the Management and based on the above analysis, we concur with their view that the demand for jewellery made from gold and silver would be stable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also noted from the HKTDC Research Article that over the past few years, China's jewellery brands have moved increasingly into e-commerce. Despite the recent growth of e-commerce across the PRC, the online sales of jewellery currently accounts for only approximately 5% of the industry's total sales, which demonstrates that China's jewellery market is still very much dominated by the traditional jewellery retail stores.

The Management considered that because (i) the Group's revenue was derived from the sale of gold, silver and jewellery products; and (ii) as disclosed in the 2017 Annual Report and 2018 Annual Report, approximately 100%, 100% and 98.9% of the Group's revenue for the years ended 31 December 2016, 2017, and 2018, respectively, were from customers in the PRC, its sales will continue to be affected by the macro-economy of the PRC as well as the demand from the gold, silver and jewellery retail market in the PRC. Based on the above analysis, in particular, (i) the PRC GDP growth target has been set at 6.0% to 6.5% as announced by the PRC government in March 2019; (ii) the information on the market review as set out above; (iii) the recent gold and silver closing price trend as per data published by the London Metal Exchange ("LME"), namely, (aa) LME Gold closing prices since 1 January 2019 (<https://www.lme.com/Metals/Precious-metals/LME-Gold#tabIndex=2>), up to the Latest Practicable Date, fluctuated between approximately US\$1,271 (2 May 2019) to US\$1,426.8 (18 July 2019) per troy ounce and closed at approximately US\$1,419.3 per troy ounce as at the Latest Practicable Date; and (bb) LME Silver closing prices since 1 January 2019 (<https://www.lme.com/Metals/Precious-metals/LME-Silver#tabIndex=2>), up to the Latest Practicable Date, fluctuated between approximately US\$14.3 (28 May 2019) to US\$16.6 (24 July 2019) per troy ounce and closed at approximately US\$16.4 per troy ounce as at the Latest Practicable Date, showing that the prices of gold and silver have fluctuated within a relatively narrow range, which means that the global demand and supply for gold and silver has remained generally stable during the aforesaid period; and (iv) stable demand from the jewellery, gold and silver market in the PRC, as evidenced by the discussion in relation to the HKTDC Research Article above and the recent gold and silver closing price trend above, we concur with the Directors' view that they are confident about the future gold, silver and jewellery market in the PRC.

3. The Profit Warning Announcement

Subsequent to the financial year ended 31 December 2018, as disclosed in the announcement of the Company dated 2 July 2019 (the "**Profit Warning Announcement**"), the Directors were of the view that, based on the Group's unaudited consolidated management accounts for January to May 2019 and preliminary sales records for June 2019 (both of which have not been confirmed, reviewed or audited by the Company's auditors or audit committee) and other information then available to the Group (the "**2019 Financial Information**"), the Group expects to record a material decrease in its net profit attributable to owners of the Company for the six months ended 30 June 2019 as compared to that for the six months ended 30 June 2018 (the "**Profit Estimate**"). Such expected decrease is mainly attributable to the decline in sales volume during the six months ended 30 June 2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After considering that (i) the demand for gold, silver and jewellery market is stable as discussed in the section headed “2. Overview of the PRC economic and the jewellery retail market in the PRC” in this letter; and (ii) as advised by the Management, the Group did not face any material difficulties in continuing its business at a normal level as at the Latest Practicable Date, we are of the view that the Profit Estimate would not impair the Group’s ability to continue its business in the foreseeable future.

4. Information on parties to the Issuances

a. Ms Xue and Ascend Delight

As disclosed in the Letter from the Board, Ms. Xue joined the Company in 2013 and is currently a sale manager at the Company. Ascend Delight is an investment holding vehicle wholly-owned by Ms. Xue.

As disclosed in the Letter from the Board, to the best of the Directors’ and the China Silver Directors’ knowledge, information and belief having made all reasonable enquiry, other than the Voting Arrangement and being an employee of the Company, each of Ms. Xue and Ascend Delight has no other relationships with the Company, the Concert Group and their respective connected persons.

b. Mr. Yao

As disclosed in the Letter from the Board, Mr. Yao is an entrepreneur based in the PRC and is the founder and chairman of King Tai Fook. Founded in 1997 and headquartered in Shenzhen, King Tai Fook is an integrated PRC-based jewellery enterprise specialized in the manufacture, processing, wholesale, retail as well as import and export of gold, karat gold, platinum, diamonds, jade and other jewellery accessories.

Mr. Yao is also an executive director of Kingbo Strike Limited (工蓋有限公司), a company engaged in the businesses of solar power station projects, electrical engineering services as well as consumer products and accessories trading, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1421).

As disclosed in the Letter from the Board, to the best of the Directors’ and the China Silver Directors’ knowledge, information and belief having made all reasonable enquiry, Mr. Yao is a third party independent of the Company, the Concert Group and their respective connected persons.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. The New Employee Share Scheme

a. *Principal terms of the New Employee Subscription Agreement*

Set out below are the principal terms of the Employee Subscription Agreement:

Date

6 May 2019 (after trading hours)

Parties

- (i) the Company (as the issuer)
- (ii) Ascend Delight (as the subscriber)
- (iii) Ms. Xue (as the guarantor)

The Employee Issuance

Pursuant to the Employee Subscription Agreement, the Company agreed to allot and issue, and Ascend Delight agreed to subscribe for the Employee Shares, being 84,287,040 new Shares, representing 8% of the existing issued share capital of the Company and approximately 6.81% of the issued share capital of the Company as enlarged by the Issuances.

The Employee Shares shall rank equally in all respects with the Shares then in issue on the date of allotment and issue of the Employee Shares. While there will be no cash consideration involved, the subscription of the Employee Shares will be recorded by the Company as share-based payment expenses. For further details, please refer to the paragraph headed “Listing Rules implications and financial impacts of the Issuances — Financial impact of the Employee Issuance” in the Letter from the Board.

As disclosed in the Letter from the Board, it is expected that completion of the Employee Issuance will take place no later than completion of the Strategic Investor Issuance.

Consideration

The nominal subscription price of the Employee Shares is HK\$0.85 per Share, which was determined with reference to, and is equivalent to, the closing price of the Shares as quoted on the Stock Exchange on the date of the Employee Subscription Agreement. The total nominal consideration for the Employee Issuance is HK\$71,643,984. It is expected that the Company will fund the subscription of the Employee Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conditions precedent

Completion of the Employee Issuance is conditional upon the following conditions precedent being satisfied:

- (a) the passing of all such resolutions to effect the Employee Issuance as are required under the Listing Rules and the Takeovers Code by the Independent Shareholders at the EGM, including but not limited to the approval of (i) the execution, delivery and performance of the Employee Subscription Agreement and the transactions contemplated thereunder; (ii) the grant of the Specific Mandate in respect of the Employee Issuance; and (iii) the Whitewash Waiver;
- (b) the Executive having granted the Whitewash Waiver, all necessary conditions attached to the Whitewash Waiver (if any) having been satisfied, and the Whitewash Waiver not having been withdrawn; and
- (c) the Listing Committee of the Stock Exchange having granted its approval for the listing of, and permission to deal in, the Employee Shares, and such approval and permission not having been withdrawn prior to the commencement of trading of the Employee Shares on the Main Board of the Stock Exchange.

All of the conditions precedent set out above cannot be waived by the Company, Ascend Delight or Ms. Xue.

Completion of the Employee Issuance is not inter-conditional upon completion of the Strategic Investor Issuance.

As at the Latest Practicable Date, none of the above conditions precedent had been fulfilled.

Completion

Completion of the Employee Issuance shall take place on a date falling no later than five Business Days after the satisfaction of the conditions precedent set forth in the sub-paragraph headed “Conditions precedent” above, or such other date and time as may be agreed between the Company and Ms. Xue.

On the date of completion, the Company shall allot and issue the Employee Shares to Ascend Delight, and Ascend Delight shall cause the Employee Shares to become part of the trust property under the trust constituted by the Employee Trust Deed.

Termination

The Employee Subscription Agreement may be terminated in the following manner:

- (a) if the conditions precedent set forth in the sub-paragraph headed “Conditions precedent” above have not been satisfied by 31 August 2019, or such later date as may be agreed between the Company and Ms. Xue; or
- (b) by the Company, Ascend Delight and Ms. Xue, upon their mutual agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Lock-up period

In the Employee Lock-Up Period, being the period of six months commencing on the date of issue of the Employee Shares, (i) Ascend Delight shall not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, the Employee Shares; and (ii) Ms. Xue shall procure Ascend Delight to comply with the above restriction, and shall ignore any instruction from any of the New Scheme Participants to dispose of any of his/her portion of Employee Shares entitled under the Employee Trust Deed.

b. The principal terms of the Employee Trust Deed

Date

6 May 2019 (after trading hours)

Parties

- (i) Ascend Delight (as the settlor)
- (ii) Ms. Xue (as the trustee)
- (iii) the Company

Beneficiaries

The beneficiaries under the trust constituted by the Employee Trust Deed are the New Scheme Participants, being 40 current employees of the Company, none of whom is an existing Shareholder, a Director, a China Silver Director or an Existing Scheme Participant. Ms. Xue is neither a New Scheme Participant, a Director, a China Silver Director nor a director of any subsidiary of the Company or China Silver.

The entitlements of the 40 New Scheme Participants to their respective portions of the Employee Shares have been determined and are set out in the Employee Trust Deed. Moreover, the beneficiaries under the trust constituted by the Employee Trust Deed are restricted to the 40 New Scheme Participants, and the Employee Shares are fully vested once they are issued. Accordingly, the New Scheme Participants are the beneficial owners of the Employee Shares and there is no mechanism for the Employee Shares to be forfeited once they are issued and vested. As such, Ms. Xue is not expected to hold any unallocated Shares in excess or any unvested Shares.

The 40 New Scheme Participants work in various functional departments of the Company, such as products, commodities, procurement, technology, human resources, finance, operations and sales. Each of them was selected and his/her entitlement to Shares was determined with reference to, among other things, (i) the fact that he/she is not an Existing Scheme Participant and is therefore in greater need of Share-based incentives; (ii) the importance of his/her roles and responsibilities to the Company's business plans; (iii) his/her seniority and duration of service; (iv) his/her performance appraisal ratings and any other on-job achievements; and (v) his/her attendance and punctuality records.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Trustee's power

Ms. Xue shall hold the relevant Shares and other cash and non-cash income on trust exclusively for all the New Scheme Participants and shall dispose of a New Scheme Participant's Shares or otherwise deal with any of those Shares or any rights conferred on that New Scheme Participant only in accordance with directions given by or on behalf of that New Scheme Participant.

Subject to the lock-up restriction set forth in the sub-paragraph headed "a. Principal terms of the New Employee Subscription Agreement - Lock-up period" above:

- (a) if a New Scheme Participant intends to hold the Shares he/she is entitled to directly or through his/her nominee, he/she shall notify Ms. Xue and to the extent permitted by applicable laws, Ms. Xue shall transfer to such New Scheme Participant such Shares as so directed; and
- (b) if a New Scheme Participant wants to monetize the Shares to which he/she is entitled, he/she shall notify Ms. Xue and to the extent permitted by applicable laws, Ms. Xue shall sell such number of Shares as the New Scheme Participant has directed Ms. Xue to sell and pay the net disposal proceeds to such New Scheme Participant or such other person as so directed.

Funding for subscription of Shares

The subscription or acquisition of Shares will be funded by the Company. In particular, the subscription of the Employee Shares pursuant to the Employee Subscription Agreement will be funded by the Company.

Voting in respect of Shares

So long as the Employee Shares are held by Ascend Delight as the registered Shareholder and Ms. Xue holds such Employee Shares on trust for the New Scheme Participants, Ms. Xue shall have absolute discretion in the exercise of the voting rights attached to such Employee Shares held by her on trust for the New Scheme Participants from time to time. Ms. Xue has agreed that so long as the Employee Shares are held by Ascend Delight as the registered Shareholder and she holds such Employee Shares on trust for the New Scheme Participants, she will agree to the Voting Arrangement, whereby she will exercise the voting rights attached to the Employee Shares in the same manner as China Silver. Where China Silver and/or its associates have a material interest in any resolution(s) to be voted on by the Shareholders at a general meeting of the Company and hence China Silver and its associates are required to abstain from voting on such resolution(s), Ms. Xue will also abstain from voting on such resolution(s) in respect of the Employee Shares held by Ascend Delight at that time.

Other than the aforementioned, there are no other circumstances whereby Ms. Xue's exercise of the voting rights attached to the Employee Shares held by Ascend Delight as the registered Shareholder on trust for the New Scheme Participants is restricted.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Following expiry of the Employee Lock-Up Period, in the event any New Scheme Participant directs Ms. Xue and Ascend Delight (i) that he/she wishes to hold the Shares he/she is entitled to directly or through his/her nominee and Ms. Xue and Ascend Delight act on such directions and transfer the relevant Shares to such New Scheme Participant; or (ii) to monetize the Shares to which he/she is entitled and Ms. Xue and Ascend Delight sell such number of Shares as the New Scheme Participant has directed, then Ms. Xue will no longer be able to direct the exercise of the voting rights attached to such Shares concerned.

6. The Strategic Investment

Set out below are the principal terms of the Strategic Investor Subscription Agreement.

Date

6 May 2019 (after trading hours)

Parties

- (i) the Company (as the issuer)
- (ii) Mr. Yao (as the subscriber)

The Strategic Investor Issuance

Pursuant to the Strategic Investor Subscription Agreement, the Company agreed to allot and issue, and Mr. Yao agreed to subscribe for the Strategic Investor Shares, being 100,000,000 new Shares, representing approximately 9.49% of the existing issued share capital of the Company and approximately 8.08% of the issued share capital of the Company as enlarged by the Issuances.

The Strategic Investor Shares shall rank equally in all respects with the Shares then in issue on the date of allotment and issue of the Strategic Investor Shares.

Consideration

The subscription price of the Strategic Investor Shares is HK\$1.50 per Share, which represents a premium of approximately 76.47% over the closing price of HK\$0.85 per Share as quoted on the Stock Exchange on the date of the Strategic Investor Subscription Agreement. The total consideration for the Strategic Investor Issuance payable by Mr. Yao is HK\$150,000,000.

The subscription price was determined after arm's length negotiations between the Company and Mr. Yao after taking into account, among other things, the following factors in summary:

- (a) the current and historical market prices of the Shares since the Global Offering;
- (b) the historical financial performance of the Company for the year ended 31 December 2018;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) the business prospects of the Company as explained in the section headed “Management Discussion and Analysis” in the 2018 Annual Report;
- (d) the current market conditions of the jewellery wholesale and retail sector in the PRC; and
- (e) the potential strategic collaboration between the Company and Mr. Yao and/or King Tai Fook as explained in the paragraph headed “Reasons for the Issuances and use of proceeds — The Strategic Investor Issuance” in the Letter from the Board.

Conditions precedent

Completion of the Strategic Investor Issuance is conditional upon the following conditions precedent being satisfied (or, in the case of paragraph (d) below only, waived by the Company):

- (a) the passing of all such resolutions to effect the Strategic Investor Issuance as are required under the Listing Rules and the Takeovers Code by the Independent Shareholders at the EGM, including but not limited to the approval of (i) the execution, delivery and performance of the Strategic Investor Subscription Agreement and the transactions contemplated thereunder; (ii) the grant of the Specific Mandate in respect of the Strategic Investor Issuance; and (iii) the Whitewash Waiver;
- (b) the Executive having granted the Whitewash Waiver, all necessary conditions attached to the Whitewash Waiver (if any) having been satisfied, and the Whitewash Waiver not having been withdrawn;
- (c) the Listing Committee of the Stock Exchange having granted its approval for the listing of, and permission to deal in, the Strategic Investor Shares, and such approval and permission not having been withdrawn prior to the commencement of trading of the Strategic Investor Shares on the Main Board of the Stock Exchange;
- (d) the representations, warranties, undertakings, confirmations and admissions made by Mr. Yao under the Strategic Investor Subscription Agreement being true and accurate and not misleading as at the date of the Strategic Investor Subscription Agreement and the date of completion of the Strategic Investor Issuance, and Mr. Yao not having breached the Strategic Investor Subscription Agreement; and
- (e) the transactions contemplated under the Strategic Investor Subscription Agreement not being prohibited by any laws or regulations or interpretations thereof in Hong Kong, the Cayman Islands or any other jurisdictions applicable to the Company.

The conditions precedent set out in (a), (b), (c) and (e) above cannot be waived by either the Company or Mr. Yao, while the condition precedent set out in (d) above may be waived only by the Company in its absolute discretion.

Completion of the Strategic Investor Issuance is not inter-conditional upon completion of the Employee Issuance.

As at the Latest Practicable Date, none of the above conditions precedent had been fulfilled or waived.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Completion

Completion of the Strategic Investor Issuance shall take place on a date falling no later than 60 Business Days after the satisfaction (or, where applicable, waiver) of the conditions precedent set forth in the sub-paragraph headed “Conditions precedent” above, or such other date and time as may be agreed between the Company and Mr. Yao. The Company and Mr. Yao have agreed that completion of the Strategic Investor Issuance may take place in installments until 31 August 2019.

At each completion installment, Mr. Yao shall indicate to the Company the consideration it will pay at such installment. Mr. Yao shall pay such consideration to a bank account designated by the Company and the Company shall allot and issue such number of Shares corresponding to the consideration paid by Mr. Yao

Termination

The Strategic Investor Subscription Agreement may be terminated in the following manner:

- (a) if the conditions precedent set forth in the sub-paragraph headed “Conditions precedent” above have not been satisfied (or, where applicable, waived) by 31 August 2019, or such later date as may be agreed between the Company and Mr. Yao;
- (b) by the Company, if Mr. Yao is in serious breach of the Strategic Investor Subscription Agreement or if any representation, warranty or undertaking made by Mr. Yao thereunder is untrue or inaccurate in any respect; or
- (c) by the Company and Mr. Yao, upon their mutual agreement.

Lock-up period

In the period of six months commencing on the date of issue of the Strategic Investor Shares, Mr. Yao shall not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, the Strategic Investor Shares.

7. Reasons for the Issuances

As disclosed in the Letter from the Board, the reasons for the Issuances are set out below.

a. The Employee Issuance and the New Employee Share Scheme

The Global Offering of the Company and its listing on the Stock Exchange in 2018 was a milestone for the Company and its employees. The Directors believe that the Existing Employee Share Scheme, which was first adopted in 2016, has played a pivotal role in incentivizing employees to contribute to the success of the Company over the last few years, including its successful Global Offering.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Management believe that it is important that such benefit be extended to other employees of the Company to demonstrate its appreciation for their efforts and also to provide necessary incentives to align their interests with those of the Company. The value of Share-based incentives is directly linked to the market price of the Shares at the relevant time, which in turn is generally driven by the operating and financial performance of the Company. Accordingly, the New Employee Share Scheme is expected to align the interests of the New Scheme Participants more closely with the interests of the Company and the Existing Scheme Participants, to motivate the New Scheme Participants to bring the Company to new heights once again, and to foster the collegiality and camaraderie among the Company's employees. In light of these expected effects, the Directors believe that the benefits brought about by the Employee Issuance in terms of talent incentivization and retention will outweigh the financial costs associated to the New Employee Share Scheme.

Based on the above, the Directors consider that the terms of the Employee Subscription Agreement and the Employee Trust Deed are fair and reasonable and that the Employee Issuance is in the interest of the Independent Shareholders.

Our view

Having considered that (i) the Existing Employee Share Scheme did not cover the employees under the New Employee Share Scheme and the New Employee Share Scheme did not cover employees under the Existing Employee Share Scheme, which was decided after the Directors having taken into consideration, among others, that (aa) the remuneration package of the employees of the Group were determined based on the respective employee's job function, performance, seniority and the prevailing market rate at the relevant time, as such, each employee are remunerated accordingly; (bb) the contribution made by the New Scheme Participants to the Company's business plans in respect of their roles and responsibilities; (cc) the New Scheme Participants' performance appraisal ratings and other on-job achievements; (dd) their respective seniority and duration of services; (ii) as discussed with the Management, they are of the view that the New Employee Share Scheme will be able to motivate the New Scheme Participants to work in the Company and further align the interests of the New Scheme Participants with that of the Shareholders through ownership of Employee Shares, dividends and other distributions to be paid on the Employee Shares and/or the increase in value of the Employee Shares, thereby providing an incentive for the New Scheme Participants to continue contributing towards the Group's growth and performance; and (iii) as discussed with the Management, they are also of the view that the New Scheme Participants shall contribute to the Company's future development, we are of the view that the Employee Issuance is in the interests of the Independent Shareholders. For further detailed analysis conducted, please refer to the section headed "9. Analysis on the New Employee Share Scheme" in this letter.

b. The Strategic Investor Issuance

Mr. Yao is the founder and chairman of King Tai Fook, which is a business partner of the Company and which purchases silver jewellery products from the Company. Other than such business relationship, Mr. Yao has no other relationships with the Company. Mr. Yao has no relationship with China Silver, Chairman Chen, Ms. Xue, the New Employee Share Scheme or the New Scheme Participants. Further information on Mr. Yao and King Tai Fook is set forth in the paragraph headed "Information on various parties to the Issuances — Mr. Yao" in the Letter from the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to promote the rapid development of the Company's integrated online and offline new retail platform, the Directors believe that the introduction of Mr. Yao as a strategic Shareholder will give impetus to the all-round strategic collaboration between King Tai Fook and the Company. Building on the strength of the Company's integrated online and offline new retail platform as well as King Tai Fook's powerful offline sales network and abundant industry resources the strategic collaboration between the Company and Mr. Yao and/or King Tai Fook is expected to be mutually complementary and to generate significant synergies in the following manner:

- (a) **To consolidate the Company's and Mr. Yao's industry resources in the gold, silver and jewellery sector.** Having founded King Tai Fook in 1997, Mr. Yao possesses more than two decades of management experience, industry expertise and professional connections. With the consolidation of the Company's and Mr. Yao's rich industry resources, the Company hopes to foster its collaboration with various traditional jewellery brands and enterprises, thereby enhancing the brand coverage and industry influence of the Company's integrated online and offline new retail platform.
- (b) **To expand the Company's offline service network and strengthen King Tai Fook's retail outlets.** Over the years, King Tai Fook has evolved into a nationwide jewellery retail chain with more than 1,000 outlets spanning major cities in the PRC. On one hand, the strategic collaboration between King Tai Fook and the Company will enable the Company to rapidly expand its brick-and-mortar sales network and make its offline services such as jewellery fitting and maintenance more accessible to its customers. On the other hand, such strategic collaboration will enrich the product offering of King Tai Fook and boost the footfall at its retail outlets.
- (c) **To empower both the Company and King Tai Fook with big data.** The Company possesses a strong technology research and development team specializing in the development and maintenance of an "intelligent marketing decision support system" dedicated to the jewellery industry. Through collecting and analyzing data from both online platforms and offline stores, such system provides valuable information on customers' behavior and preferences, thereby allowing retailers to gain an insight into operational and business strategies. The installation and application of such system in King Tai Fook's retail outlets will not only provide the Company with access to useful data from a greater number of customers, but also enable King Tai Fook to modernize its traditional jewellery retail business with big data analytics.

As set out in the Letter from the Board, after deducting all expenses payable by the Company in connection with the Issuances (expected to be approximately HK\$2.5 million), the net proceeds received from the Strategic Investor Issuance are expected to be approximately HK\$147.5 million (representing a net issue price of approximately HK\$1.475 per Share). The Company intends to utilize such net proceeds to further develop its offline sales and service network, thereby further expanding and optimizing its integrated online and offline retail structure, specifically in the following manner:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Intended use of net proceeds	Approximate percentage of net proceeds allocated
(i) To develop its offline sales and experiential shopping network	45%
(ii) To organize brand development and targeted marketing initiatives	10%
(iii) To implement cross-sector marketing campaigns, such as its “CSMall Gift” initiatives which involve cooperation with companies in other sectors including retail, entertainment, commercial banking, telecommunications and insurance	10%
(iv) To carry out technological research and development and upgrade its information technology systems, such as its “intelligent marketing decision support system” described above	10%
(v) To replenish its general working capital for supporting business operations, including:	
(1) To pay professional and other fees in relation to its status as a Hong Kong listed company and also in relation to the Issuances	10%
(2) To pay other administrative expenses, including but not limited to rental expenses as well as salaries and other allowances	15%
Total	<u>100%</u>

Based on the above, the Directors consider that the terms of the Strategic Investor Subscription Agreement are fair and reasonable and that the Strategic Investor Issuance is in the interest of the Independent Shareholders. Further analysis on the subscription price under the Strategic Investor Issuance is set out under the section headed “10. Analysis on the Strategic Investment” below.

Our view

Having considered that the benefits of the introduction of Mr. Yao as a strategic Shareholder, including (i) the Company’s and Mr. Yao’s industry resources in the gold, silver and jewellery sector could be consolidated; (ii) the Company’s offline service network could be expanded through King Tai Fook’s retail outlets; and (iii) empowering both the Company and King Tai Fook with big data, and that the net proceeds to be received from the Strategic Investor Issuance will be applied towards (i) further developing the Company’s offline sales and service network, thereby further expanding and optimizing the relevant integrated online and offline retail structure; (ii) brand development and marketing activities; (iii) research and development and information technology system upgrade; and (iv) improving the Company’s general working capital position as detailed above, we consider that the Strategic Investor Issuance is in the interests of the Independent Shareholders. For further detailed analysis conducted, please refer to the section headed “10. Analysis on the Strategic Investment” in this letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

8. Reasons for the Employee Lock-Up Period and the Voting Arrangement

As disclosed in the Letter from the Board, the Employee Lock-Up Period was determined after arm's length discussions between the Company and the New Scheme Participants after taking into account, among other things, (i) the nature of the Employee Shares as non-cash-based employee compensation to be funded by the Company, where it is fair and reasonable for the New Scheme Participants' entitlement to such compensation to be subject to a time-based condition; and (ii) the ability of the Employee Lock-Up Period to enhance the motivation effect of the New Employee Share Scheme as explained in (a) below.

The Voting Arrangement was included in the Employee Trust Deed as a result of an agreement reached between China Silver and Ms. Xue (being members of the Concert Group) to facilitate the Continued Consolidation. As set out in the Letter from the Board, this is because in the absence of the Voting Arrangement, China Silver and Chairman Chen would together control only approximately 41.24% of the voting rights of the Company following completion of the Issuances. China Silver's management, after discussion with China Silver's auditors, is of the view that such circumstances would present a borderline case for China Silver to continue to account for the Company as its subsidiary, which would depend on various factors including but not limited to (i) the relative size and dispersion of the other Shareholders' shareholding at the relevant time; and (ii) whether China Silver has the practical right to appoint the majority of the members of the Board. For the sake of certainty, the Company believes that the Voting Arrangement is necessary to ensure that the Continued Consolidation will be possible for at least the Employee Lock-Up Period. Please refer to the paragraph headed "Listing Rules implications and financial impacts of the Issuances — Continued treatment of the Company as a subsidiary of China Silver" in the Letter from the Board for details.

We have summarised and set forth the reasons considered by the Directors based on the Letter from the Board:

- (a) **Enhance motivation and align the interests of the New Scheme Participants.** The New Employee Share Scheme is adopted with a view to align the interests of the New Scheme Participants with those of the Company and motivate the New Scheme Participants to work together with management towards the performance targets of the Company. The Employee Lock-Up Period and the Voting Arrangement serve to motivate the New Scheme Participants to focus on attaining the Company's development goals for at least the remainder of 2019, following which they can choose to either monetize the economic benefits or remain as a Shareholder and exercise the voting rights attached to the Employee Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) **Branding and marketing benefits of remaining as a subsidiary of China Silver.** With the Continued Consolidation, the Company will continue to benefit from the group branding and marketing efforts of China Silver, which are in addition to and complementary with the Company's separate listing status and its own branding and marketing efforts. Since 2014, China Silver has promoted the Company's business as its "proprietary online sales platform", "O2O business" or "New Jewellery Retail segment" in its corporate communications. Since 2016, the Company's business has been positioned as a vital driving force for China Silver's mission to become a "leading fully-integrated silver and precious metals enterprise in the PRC". By remaining as part of the China Silver group, the Company will continue to enjoy such branding and marketing benefits, thereby maintaining the Company's brand awareness.
- (c) **Efficiencies and synergies of remaining as a subsidiary of China Silver.** With the Continued Consolidation, the interests of China Silver and the Company will remain aligned and there will continue be incentives for both parties to facilitate greater synergies and achieve efficiencies between them including, among others, the non-exempt connected transactions between the Company and China Silver in connection with the Company's purchase of silver ingots from China Silver. As these silver ingots are used by the Company to manufacture silver products for sale, it is important that these transactions continue to be transacted on terms that are favourable to the Company and that supply remains stable.

Our view on the Employee Lock-Up Period

Having considered the Employee Lock-Up Period of six months under the New Employee Share Scheme can align the interests of the New Scheme Participants and the Shareholders through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, thereby providing an incentive for the New Scheme Participants to continue contributing towards the Company's development goals for at least the remainder of 2019, we consider that the Employee Lock-Up Period is fair and reasonable and in the interests of the Company and the Independent Shareholders.

Our view on the Voting Arrangement

Immediately following the completion of the Issuances and with the Voting Arrangement in place, the Concert Group will together control approximately 48.05% of the voting rights of the Company. So long as completion of the Employee Issuance takes place no later than completion of the Strategic Investor Issuance and the Voting Arrangement is in place, we understand from the Management that the Concert Group's percentage control of the voting rights of the Company will not fall below approximately 48.05% at any point in time.

As at the Latest Practicable Date, the Directors advised that having taken into consideration, among others, that the Employee Issuance will not involve cash outflow, they do not envisage any difficulties in ensuring that the completion of the Employee Issuance to take place no later than completion of the Strategic Investor Issuance. Therefore, we concur with the Directors' view that during the period from the Latest Practicable Date up to the date of the completion of the Issuances, the Group should remain as subsidiary of China Silver.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that, among others, (i) the Company should remain as subsidiary of China Silver from the Latest Practicable Date up to the date of the completion of the Issuances; (ii) the Company advised that the Voting Arrangement is necessary to ensure that after the completion of the Issuances, the Continued Consolidation will be possible for at least the Employee Lock-Up Period as discussed above; and (iii) the Company can continue to benefit from the group branding and marketing efforts of China Silver since (aa) China Silver's financial performance will continue to be affected by the Company's financial performance; (bb) China Silver has incentive to promote the business of the Company; and (cc) the Company believes that by remaining a subsidiary of China Silver, there will be incentives for both parties to facilitate greater synergies and achieve efficiencies between them as further detailed above, we consider the Voting Arrangement is fair and reasonable and in the interests of the Company and the Independent Shareholders.

9. Analysis on the New Employee Share Scheme

a. Performance of the New Scheme Participants

We understand from the Directors that the award of Employee Shares to the New Scheme Participants was decided after considering their respective roles, contributions and remuneration packages with reference to, among others, the New Scheme Participants' performance appraisal in accordance with the Group's internal assessment procedures for during the three years immediately before 30 June 2019. The overall remuneration packages of the New Scheme Participants consisted of, among others, a basic salary and the Employee Shares.

As disclosed in the 2017 Annual Report and the 2018 Annual Report, the net profit attributable to owners of the Company increased by approximately RMB 51.0 million or 101.4% for the year ended 31 December 2017 and further increased by approximately RMB41.4 million or 40.9% for the year ended 31 December 2018. As advised by the Directors, employees are regarded as one of the most important and valuable assets of the Group and the objective of the Group's human resource management is to reward and recognize staff performance and contribution by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives. The Directors are of the view that the New Employee Share Scheme can (i) reward the employees and senior management for their contribution to the increase in the net profit attributable to owners of the Company for the year ended 31 December 2017 and 2018; (ii) stimulate the employees who have joined the Group less than three years prior to 30 June 2019 as an incentive to increase their productivity and performances; and (iii) attract potential employees or senior management who may contribute to the growth of the Group.

As advised by the Management, the target of the New Employee Share Scheme consisted of employees and senior management of the Company who have fulfilled specific performance targets and all employees or senior management with outstanding performance, but excluding all employees or senior management who have been awarded Shares prior to the listing of Shares on the Main Board of the Stock Exchange.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As part of our analysis, we have reviewed the performance evaluation policies of the Group and understand from the Management that the performance of the New Scheme Participants will be based on the key performance indicators discussed and agreed between the New Scheme Participants and their respective supervisor or manager and the measurement and items of such key performance indicators are subject to review and adjustments every month. The Management confirmed that the Employee Shares were granted to the New Scheme Participants based on their respective performance evaluated against the aforesaid applicable performance indicators every month.

We therefore concur with the Management's view that the New Employee Share Scheme can motivate and further align the interests of the New Scheme Participants with that of the Shareholders, including the Independent Shareholders, and the Company attributable to the Employee Shares granted to them, which are subject to the Employee Lock-Up Period. We also concur with the Management's view that although the New Employee Share Scheme may result in recognition of material expenses of the Group for the year ending 31 December 2019, the importance of and expected contribution from the New Scheme Participants as explained in this sub-section and also in the section headed "7. Reasons for the Issuances", at least during the Lock-up Period, should out-weight the expenses associated with the New Employee Share Scheme.

b. The Employee Lock-Up Period

As disclosed in the Letter from the Board, the award of Shares to the New Scheme Participants was subject to the Employee Lock-Up Period, being the period of six months commencing on the date of issue of the Employee Shares, that (i) Ascend Delight shall not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, the Employee Shares; and (ii) Ms. Xue shall procure Ascend Delight to comply with the above restriction, and shall ignore any instruction from any of the New Scheme Participants to dispose of any of his/her portion of Employee Shares entitled under the Employee Trust Deed.

As advised by the Management, the Employee Lock-Up Period can (i) further align the interests of the New Scheme Participants with those of the Group and motivate them to bring the Group to new heights; and (ii) to strengthen the capital base of the Group which can help meet capital needs and facilitate growth of the Group in future.

c. Consideration

As set out in the Letter from the Board, the nominal subscription price of the Employee Shares is HK\$0.85 per Share, which was determined with reference to, and is equivalent to, the closing price of the Shares as quoted on the Stock Exchange on the date of the Employee Subscription Agreement. The total nominal consideration for the Employee Issuance is HK\$71,643,984. It is expected that the Company will fund the subscription of the Employee Shares.

We consider the historical closing price per Share to be an appropriate benchmark to assess the reasonableness for the subscription price of the Employee Shares to be set at HK\$0.85 per Share. The closing price per Share in the three and six months immediately prior the date of the Joint Announcement ranged from HK\$0.57 per Share to HK\$1.17 per Share, with an average of approximately HK\$0.97 Share (the "**3 Month Average**") and HK\$0.57 per Share to HK\$1.28 per Share, with an average of approximately HK\$1.07 Share (the "**6 Month Average**"), respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the subscription price of HK\$0.85 per Share is determined with reference to, and is equivalent to, the closing price of the Shares as quoted on the Stock Exchange on the date of the Employee Subscription Agreement and within range of the 3 Month Average and 6 Month Average, we consider the subscription price to be appropriate for the purpose of determining the size of the Employee Issuance when assessing the fair and reasonableness of the Employee Issuance in the following sub-section.

d. Dilution effect on the shareholding of the Independent Shareholders

We noted from the Letter from the Board that, immediately after completion of the Employee Issuance but before the completion of the Strategic Investor Issuance and assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Issuances, the shareholding of other public Shareholders will be decreased to approximately 28.90% from approximately 31.21% as at the Latest Practicable Date.

Having considered, in particular, (i) the importance of the New Scheme Employees to the performance of the Company; and (ii) the interests of the New Scheme Employees and the Shareholders could be further aligned during the Employee Lock-Up Period, together with our analysis as set out in sub-section headed “a. Performance of the New Scheme Participants” in this section, we concur with the Directors’ view that the slight dilution to the shareholdings of the Independent Shareholders is reasonable.

e. Analysis on the Employee Issuance

To assess the reasonableness of the Employee Issuance, having considered the principal business and market capitalisation of the Group, we have conducted a comparable analysis by identifying companies listed on the Main Board of the Stock Exchange based on the following criteria, namely (i) more than 50% of the revenue of the listed companies is from the design and sale of gold, silver and/or jewellery products as disclosed in their respective annual reports or listing documents, such being similar sector in which the Group’s revenue for the year ended 31 December 2018 was generated from; (ii) more than 50% of the revenue of the listed companies was derived from online channels as disclosed in their respective annual reports or listing documents; and (iii) the market capitalisation of the listed issuers being less than HK\$10 billion compared to the market capitalisation of the Company of approximately HK\$895.5 million as at the Last Trading Day, with a view to exclude listed companies which are considered to be too large for the purpose of comparison (the “**Initial Criteria**”). We have not identified listed companies which fulfilled the Initial Criteria. As such, we expand our criteria to include listed issuers which derived its revenue from offline shops and/or online channels, while keeping other criteria the same (the “**Final Criteria**”).

Based on the Final Criteria, we have identified an exhaustive list of ten listed issuers (the “**Comparables**”) which provide a reasonable number of comparable listed issuers for the purpose of our analysis on (i) total employee compensation and related costs to revenue ratio; and (ii) total employee compensation and related costs to profit after tax ratio. As the Comparables were selected based on the Final Criteria, and considering that the primary revenue and profit drivers of the Comparables and the Company are both mainly affected by, among others, customer demand as well

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

as raw material costs, manufacturing and/or processing costs for the gold, silver and/or jewellery products, and therefore can provide a general reference of the characteristics of cost structure related to revenue and net profit after tax, we consider the Comparables to be an appropriate benchmark to assess the reasonableness of the Employee Issuance.

Set out below are the table sets out the employee compensation and related costs as a percentage to revenue and net profit after tax.

Company name <i>(stock code)</i>	Revenue of the issuer as per latest published annual report/ listing document <i>(HK\$'000)</i>	Profit / (loss) after tax of the issuer as per latest published annual report/ listing document <i>(HK\$'000)</i>	Total employee compensation and related costs as per latest published annual report/ prospectus <i>(HK\$'000)</i>	Total employee compensation and related costs to revenue ratio	Total employee compensation and related costs to profit after tax ratio
	<i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Notes 1 & 2)</i>		
Chow Sang Sang Holdings International Limited (116) <i>(Note 3)</i>	18,806,342	1,012,257	1,527,077	8.1%	150.9%
Affluent Partners Holdings Limited (1466)	187,357	(129,787)	44,422	23.7%	N/A <i>(Note 5)</i>
Perfect Group International Holdings Limited (3326)	522,005	71,572	37,100	7.1%	51.8%
Dominate Group Holdings Company Limited (8537)	173,020	4,835	22,290	12.9%	461.0%
Continental Holdings Limited (513)	391,882	354,755	88,717	22.6%	25.0%
Tse Sui Luen Jewellery (International) Limited (417) <i>(Note 4)</i>	4,137,179	49,508	632,580	15.3%	1277.7%
Zhong Fa Zhan Holdings Limited (475)	28,106	(23,099)	10,206	36.3%	N/A <i>(Note 5)</i>
King Fook Holdings Limited (280)	517,642	(22,741)	49,487	9.6%	N/A <i>(Note 5)</i>
Hifood Group Holdings Co., Limited (442)	433,666	(37,297)	91,332	21.1%	N/A <i>(Note 5)</i>
Hong Kong Resources Holdings (2882)	1,459,466	(68,276)	190,859	13.1%	N/A <i>(Note 5)</i>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company name (stock code)	Revenue of the issuer as per latest published annual report/ listing document (HK\$'000) (Note 1)	Profit / (loss) after tax of the issuer as per latest published annual report/ listing document (HK\$'000) (Note 1)	Total employee compensation and related costs as per latest published annual report/ prospectus (HK\$'000) (Notes 1 & 2)	Total employee compensation and related costs to revenue ratio	Total employee compensation and related costs to profit after tax ratio
			Maximum	36.3%	1277.7%
			Minimum	7.1%	25.0%
			Average	17.0%	393.3%
the Company	2,844,051 (Note 6)	162,452 (Note 7)	123,325 (Note 8)	4.3%	75.9%

Source: The latest annual reports or the listing documents of the respective listed issuers published on the Stock Exchange website.

Notes:

- For the illustrative purpose of this table, conversion of RMB into HK\$ in relation to the respective financial figures of the Comparables and the Company denominated in RMB (if applicable and if any) is calculated at the approximate exchange rate of RMB1.00 to HK\$1.1386 as quoted from the website of Hong Kong Monetary Authority (www.hkma.gov.hk/) on 31 December 2018, being the financial year end date of the latest completed financial year of the Company. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.
- Total employee and related costs including, but not limited to, directors' remuneration, wages, salaries and other benefits, share based payments, and other employee benefits.
- As set out in the report of the listed issuer for the year ended 31 December 2018, approximately 50% of its revenue was derived from the PRC, out of this revenue, approximately 15% of was derived from online sales.
- The listed issuer changed its financial year end and the latest completed financial year contained 13 months as set out in the latest published annual report of the listed issuer. Such change in its financial year will not materially affect the analysis below as (i) the cost structure and the relevant ratios would not be affected materially; and (ii) the listed issuer satisfied the Criteria. The listed issuer also engaged in online sales but did not specify the relevant amount in its latest published annual report.
- Total employee compensation and related costs to profit after tax percentage ratio is negative given the loss after tax for the year recorded by the respective listed issuers. As such, the relevant Comparables were excluded from the analysis of market range and market average of employee compensation and related costs to profit after tax ratio.
- Based on the revenue of the Group of approximately RMB2,497,849,000 for the year ended 31 December 2018 and the exchange rate between RMB and HK\$ as explained in note 1 above.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7. *Based on the profit for the year of the Group of approximately RMB142,677,000 for the year ended 31 December 2018 and the exchange rate between RMB and HK\$ as explained in note 1 above.*
8. *Based on the total staff cost of the group of approximately RMB45,390,000 for the year ended 31 December 2018 and the exchange rate between RMB and HK\$ as explained in note 1 above and the total consideration for the Employee Issuance of approximately HK\$71,643,984.*

As set out in the table above, the total employee compensation and related costs to revenue ratio of (i) the Comparables ranged from approximately 7.1% to 36.3% with an average of approximately 17.0%; and (ii) the Company was approximately 4.3%, which is below the bottom range of such ratio of the Comparables. The total employee compensation and related costs to profit after tax ratio of (i) the Comparables ranged from approximately 25.0% to 1277.7% with an average of approximately 393.3%; and (ii) the Company was approximately 75.9%, which is within range and below the average of such ratio of the Comparables.

Furthermore, we noted that two listed issuers among the Comparables, namely Tse Sui Luen Jewellery (International) Limited and Chow Sang Sang Holdings International Limited, also engaged in online sales as set out in their respective latest published annual reports. As such, we conducted further analysis on the relevant ratios of the aforesaid two listed issuers. The total employee compensation and related costs to revenue ratio of the two listed issuers ranged from approximately 8.1% to 15.3% with an average of approximately 11.7% compared to approximately 4.3% of the Company, which is below the bottom range of such ratio of the two listed issuers. The total employee compensation and related costs to profit after tax ratio of the two listed ranged from approximately 150.9% to 1277.7% with an average of approximately 714.3% compared to approximately 75.9% of the Company, which is below the bottom range of such ratio of the two listed issuers.

Given the abovementioned factors, including that the Comparables are selected based on their principal businesses, their respective revenue was also primarily generated from the design and sale of gold, silver and/or jewellery products, being business similar to that of the Company, we are of the view that the Comparables are suitable for comparison purposes in assessing the fairness and reasonableness of the Employee Issuance, being part of the employee compensation and related costs, as a whole. Based on the foregoing analysis, we are of the view that the Employee Issuance is fair and reasonable and in the interests of the Independent Shareholders.

f. Possible financial effects of the New Employee Scheme

As advised by the Management, it is expected that the Company will fund the subscription of the Employee Shares. Given that each New Scheme Participant's entitlement to his/her portion of Employee Shares has been determined, it is expected that the fair value of the Employee Shares (with reference to, among other things, the market price of the Shares and the Employee Lock-Up Period) will be recorded by the Company as share-based payment expenses on or around the date of the EGM, assuming that all necessary resolutions for the Employee Issuance are duly passed at the EGM. Besides, the issuance of the Employee Shares shall enlarge the capital base of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As a result of the Employee Issuance, no material net cash outflow is expected by the Management, save for the relevant major expenses relating to the execution and approval of the Employee Issuance, including but not limited to, the professional and other fees in relation to (i) the structuring of the Issuances and the preparation of relevant documentation; (ii) the publication and printing of relevant announcements and the Circular; (iii) the convening of the EGM; and (iv) the making of necessary applications to the Executive and the Stock Exchange.

g. Our view

Based on our analysis performed as set out in this section above, in particular, the comparison against the Comparables, as well as the reasons set out under sections headed “7. Reasons for the Issuances” and “8. Reasons for the Employee Lock-Up Period and the Voting Arrangement”, we are of the view that the terms of the Employee Issuance to be fair and reasonable and in the interests of the Independent Shareholders.

10. Analysis on the Strategic Investment

a. Evaluation of the subscription price of the Strategic Investor Shares

Historical performance of the Shares

We consider the prevailing closing price per Share to be an appropriate benchmark to assess the reasonableness for the subscription price of the Strategic Investor Shares at HK\$1.50 per Share.

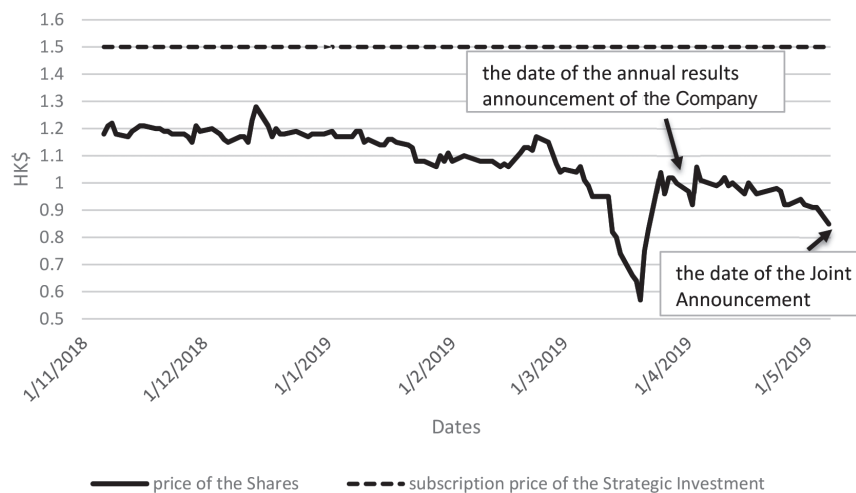
The subscription price of the Strategic Investor Shares of HK\$1.50 represents:

- (1) a premium of approximately 183.0% over the closing price of HK\$0.53 per Share quoted on the Stock Exchange on the Latest Practicable Date;
- (2) a premium of approximately 76.5% over the closing price of HK\$0.85 per Share quoted on the Stock Exchange on 6 May 2019, being the Last Trading Day;
- (3) a premium of approximately 65.6% over the average closing price of HK\$0.906 per Share quoted on the Stock Exchange for the 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (4) a premium of approximately 61.6% over the average closing price of HK\$0.928 per Share quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (5) a premium of approximately 13.8% over the audited consolidated net asset value of the Company of approximately HK\$1.318 per Share as at 31 December 2018, calculated based on the audited consolidated net asset value of the Company of RMB1,220,035,000 as at 31 December 2018, which is equivalent to approximately HK\$1,389,131,851 based on the approximate exchange rate of RMB1.00 to HK\$1.1386 (as quoted from the website of Hong Kong Monetary Authority (www.hkma.gov.hk) on 31 December 2018), divided by the total number of 1,053,588,000 Shares in issue as at the Last Trading Day (which had remained unchanged as at the Latest Practicable Date).

Set out below is a chart reflecting movements in the closing prices of the Shares as quoted on the Stock Exchange for a six months period from 6 November 2018 up to and including the date of the Subscription Agreement (the “**Review Period**”), which represented a reasonable time to provide a general overview of the recent price performance of the Shares.



As shown in the chart above, the closing prices of the Shares were traded within the range of HK\$0.57 and HK\$1.28 with an average of HK\$1.07 during the Review Period. It is noted that the subscription price of the Strategic Investment is above the closing prices of the Shares during the Review Period.

Furthermore, with a view to assess the fair and reasonableness of the subscription price of the Strategic Investor Shares, which shall be issued pursuant to a specific mandate, for comparison purposes only, we also compared it against the general mandate thresholds set out under Rule 13.36(2)(b) of the Listing Rules (i.e. not more than a discount of 20% to the benchmarked price of the Shares under a general mandate as set out under Rule 13.36(5) of the Listing Rules) and noted that the subscription price of the Strategic Investor Shares is no less favourable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

b. Dilution effect on the shareholding of the Independent Shareholders

As disclosed in the Letter from the Board, assuming all of the new Shares has been granted to Mr. Yao, the new Shares granted represented approximately 9.49% of the total number of Shares in issue at the Latest Practicable Date and approximately 8.08% of the total number of Shares in issue as enlarged by the issue and allotment of both the Employee Issuance and the Strategic Investor Issuance.

We noted from the Letter from the Board, immediately after completion of the Strategic Investor Issuance only, assuming that completion of Employee Issuance does not take place and there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Issuances, the shareholding of other public Shareholders will be decreased to approximately 28.51% from approximately 31.21% as at the Latest Practicable Date. Besides, immediately after completion of both the Employee Issuance and the Strategic Investor Issuance, assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Issuances, the shareholding of other public Shareholders will decrease to approximately 26.56% from approximately 31.21% as at the Latest Practicable Date.

As disclosed in the Letter from the Board, the Company intends to utilize the net proceeds received from the Strategic Investor Issuance after deducting relevant expenses, being approximately HK\$147.5 million to further develop its offline sales and service network, thereby further expanding and optimizing its integrated online and offline retail structure.

Based on the information as set out under section headed “Effects on shareholding structure of the Company” in the Letter from the Board, in particular, the new Shares and the subscription price pursuant to the Strategic Investor Subscription Agreement, and the Employee Shares and the subscription price pursuant to the Employee Subscription Agreement, it is noted that the theoretical dilution as a result of the Strategic Investor Issuance on its own and when aggregated with the Employee Issuance shall be less than 25%.

Furthermore, the Strategic Investor Issuance will enlarge the capital base of the Company, which shall in turn provide greater flexibility for the Group’s financing in the future.

c. Our view

Taking into account (i) the reasons for the grant of the new Shares to Mr. Yao as set out under the section headed “7. Reasons for the Issuances” in this letter; (ii) the subscription price of the Strategic Investor Shares of HK\$1.50 represents a premium of approximately 76.5% over the closing price of HK\$0.85 per Share quoted on the Stock Exchange on 6 May 2019, being the Last Trading Day; (iii) the subscription of the Strategic Investor Shares can improve the liquidity of the Group immediately upon its completion; (iv) the use of proceeds from the allotment and issue of the Strategic Investor Shares as mentioned above; (v) our analysis on the subscription price of the Strategic Investor Shares; and (vi) our analysis on the slight dilution resulting from the Strategic Investor Agreement, we are of the view that the Strategic Investor Issuance to be fair and reasonable and in the interests of the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

11. The Whitewash Waiver

As at the Latest Practicable Date, China Silver and Chairman Chen together hold 510,479,569 Shares, representing approximately 48.45% of the total issued share capital of the Company.

Ms. Xue, China Silver and Chairman Chen will, as a result of the Voting Arrangement, become parties acting in concert and immediately after the Employee Issuance, the Concert Group will hold approximately 52.27% of the total issued share capital of the Company. Therefore, the Employee Issuance and the Voting Arrangement have the effect of increasing their collective shareholding of voting rights of the Company by more than 2%. Accordingly, in the absence of the Whitewash Waiver, the Concert Group would incur an obligation pursuant Rule 26 of the Takeovers Code to make a mandatory general offer to the Shareholders to acquire all the Shares (other than those already owned or agreed to be acquired by the Concert Group). An application has been made by the Concert Group to the Executive for the grant of the Whitewash Waiver pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code.

The Whitewash Waiver, if granted by the Executive, will be subject to the condition that respective resolutions relating to the Whitewash Waiver and the Issuances being approved by at least 75% and more than 50%, respectively, of the votes cast by the Independent Shareholders by way of poll at the EGM. **As the Concert Group does not have any intention or plan to make a general offer in respect of the Shares, in the event that the Whitewash Waiver is not granted by the Executive or, if granted, is not approved by the Independent Shareholders, the Concert Group and the Company do not intend to proceed with the Issuances even if either or both of the Issuances is/are approved by the Independent Shareholders.**

The Company notes that the Executive may not grant the Whitewash Waiver if the Issuances and/or the Whitewash Waiver do not comply with other applicable rules and regulations. Furthermore, the Company notes that the Whitewash Waiver will not be granted or, if granted, will be invalidated if, without the prior consent of the Executive, any acquisitions or disposals of voting rights in the Company are made by any member of the Concert Group in the period between the date of the Announcement and the date of completion of the Issuances.

If the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, the Concert Group will be deemed to have a lowest percentage holding equal to its percentage holding immediately after the Issuances, being 48.05% of the enlarged share capital of the Company. As the shareholding of the Concert Group in the Company upon the completion of the Issuances is not less than 30% but not more than 50%, any acquisition of additional voting rights by any member(s) of the Concert Group of more than 2% by reference to the lowest percentage holding in the 12 month period ending on the date of the completion of Issuances subsequent to the Issuances will trigger an obligation of such member(s) of the Concert Group to make a mandatory general offer for all the issued Shares not already owned by it/them or parties acting in concert with it/them under Rule 26 of the Takeovers Code, unless a whitewash waiver is granted by the Executive and approved by the independent Shareholders of that acquisition.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our view

We note that the granting of the Whitewash Waiver and the approval of the Whitewash Waiver by the Independent Shareholders are part of the conditions precedent for the Issuances and the transactions contemplated thereunder which are not waivable. If the Whitewash Waiver is not granted, the Issuances and the transactions contemplated thereunder shall lapse and will not proceed. The Company would then lose all the benefits that are expected to be brought to the Group by the Issuances and the transactions contemplated thereunder. Taking into account, among others, the following factors:

In relation to the New Employee Share Scheme

- (i) that the terms of the New Employee Share Scheme are fair and reasonable so far as the Independent Shareholders are concerned after considering in particular, among others, that our analysis set out in the sub-section headed “e. Analysis on the Employee Issuance” under section headed “9. Analysis on the New Employee Share Scheme”;
- (ii) the importance of the New Scheme Participants to the Group as discussed under the section headed “7. Reasons for the Issuances” above;
- (iii) that the Employee Lock-Up Period can align the interests of the New Scheme Participants and the Shareholders as discussed in the section headed “8. Reasons for the Employee Lock-Up Period and the Voting Arrangement”;
- (iv) the benefits that the Voting Arrangement would allow the Company to remain as subsidiary of China Silver as discussed in the section headed “8. Reasons for the Employee Lock-Up Period and the Voting Arrangement”;
- (v) our analysis on the slight dilution resulting from the Employee Issuance as discussed in the subsection headed “d. Dilution effect on the shareholding of the Independent Shareholders” under section headed “9. Analysis on the New Employee Share Scheme”;

In relation to the Strategic Investment

- (vi) that the subscription price under the Strategic Investment is fair and reasonable so far as the Independent Shareholders are concerned as discussed in the subsection headed “a. Evaluation of the subscription price of the Strategic Investor Shares” under the section headed “10. Analysis on the Strategic Investment” above;
- (vii) the benefits of the Strategic Investor Issuance and the transactions contemplated thereunder as discussed under the section headed “7. Reasons for the Issuances” above, in particular, among others, that the Strategic Investor Issuance can improve the liquidity position of the Group immediately upon its completion and the Group can benefit from the use of proceeds received from the Strategic Investor Mr. Yao;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(viii) our analysis on the slight dilution resulting from the Strategic Investor Issuance as discussed in the subsection headed “b. Dilution effect on the shareholding of the Independent Shareholders” under section headed “10. Analysis on the Strategic Investment”; and

In relation to the Issuances as a whole

(ix) that if the Whitewash Waiver is not granted, the Issuances and the transactions contemplated thereunder shall lapse and will not proceed,

we consider the granting of the Whitewash Waiver to be fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, we are of the view that the Issuances, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders, the terms of the Issuances, the Specific Mandate, the Whitewash Waiver and transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the Issuances, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited
Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience primarily from Hong Kong corporate finance industry.

* *for identification purpose only*

1. FINANCIAL SUMMARY

The following summary financial information for each of the three financial years ended 31 December 2016, 2017 and 2018 is extracted from the audited consolidated financial statements of the Group as set forth in the 2017 Annual Report and the 2018 Annual Report.

The auditor's reports issued by Deloitte Touche Tohmatsu in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2016, 2017 and 2018 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

There were no exceptional items because of size, nature or incidence that were required to be disclosed in the financial statements of the Group, nor were any dividends paid, declared or proposed, for each of the three years ended 31 December 2016, 2017 and 2018.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December		
	(audited)		
	2016	2017	2018
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Revenue	2,465,291	3,519,581	2,497,849
Cost of sales	<u>(2,315,776)</u>	<u>(3,268,296)</u>	<u>(2,182,667)</u>
Gross profit	149,515	251,285	315,182
Other income, gains and losses	6,147	22	19,612
Impairment loss on financial assets	—	—	(2,006)
Selling and distribution expenses	(43,398)	(41,726)	(48,363)
Administrative expenses	(44,136)	(51,339)	(68,404)
Share of results of associates	350	(18)	—
Other expenses	—	(81)	(10,095)
Listing expenses	<u>(3,802)</u>	<u>(18,645)</u>	<u>(9,285)</u>
Profit before tax	64,676	139,498	196,641
Income tax expense	<u>(14,412)</u>	<u>(38,557)</u>	<u>(53,964)</u>
Profit for the year	50,264	100,941	142,677

	For the year ended 31 December (audited)		
	2016	2017	2018
	RMB '000	RMB '000	RMB '000
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translating foreign operations	33	(16)	—
Total comprehensive income for the year	<u>50,297</u>	<u>100,925</u>	<u>142,677</u>
Profit (loss) for the year attributable to:			
Owners of the Company	50,264	101,305	142,677
Non-controlling interests	—	(364)	—
	<u>50,264</u>	<u>100,941</u>	<u>142,677</u>
Total comprehensive income for the year attributable to:			
Owners of the Company	50,297	101,289	142,677
Non-controlling interests	—	(364)	—
	<u>50,297</u>	<u>100,925</u>	<u>142,677</u>
Earnings per share			
Basic ^(Note)	RMB0.09	RMB0.12	RMB0.14

Note: The concept of diluted earnings per share is not applicable to the Company as there had been no outstanding financial instrument convertible or exchangeable into Shares during the three years ended 31 December 2016, 2017 and 2018.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2016, 2017 and 2018 (together with all notes thereto) are set out at the following locations:

- (a) For the year ended 31 December 2016: on pages I-3 to I-52 of the Prospectus, accessible at <http://www.hkexnews.hk/listedco/listconews/sehk/2018/0228/ltn20180228035.pdf>;
- (b) For the year ended 31 December 2017: on pages 50 to 105 of the 2017 Annual Report, accessible at <http://www.hkexnews.hk/listedco/listconews/sehk/2018/0426/ltn20180426083.pdf>; and
- (c) For the year ended 31 December 2018: on pages 56 to 113 of the 2018 Annual Report, accessible at <http://www.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn20190429907.pdf>.

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 June 2019, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Company did not have any outstanding bank borrowings, debt securities, charges, mortgages, or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase and finance lease commitments, any guarantees or material contingent liabilities. The Company does not expect to raise material external debt financing in the near future based on its current business plans.

4. NO MATERIAL CHANGE

Reference is made to the section headed “Chairman’s Statement — Prospects” in the 2018 Annual Report and the section headed “Letter from the Board” of this circular.

The Directors confirmed that since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date, there had been no material change in the financial or trading position or outlook of the Group and the general trend of the business of the Group, except for the following:

- (a) the expected material decrease in the Group’s net profit attributable to owners of the Company for the six months ended 30 June 2019 as compared to that for the six months ended 30 June 2018, as further explained in the Profit Warning Announcement (see Appendix III to this circular for the reports on the Profit Warning Announcement prepared by the Company’s reporting accountants and the Independent Financial Adviser in accordance with Rule 10 of the Takeovers Code);
- (b) the possible financial effects related to the New Employee Share Scheme as set out under the paragraph headed “Listing Rules implications and financial impacts of the Issuances Financial impact of the Employee Issuance” in the section headed “Letter from the Board” of this circular (in the event that the Employee Issuance is consummated); and

- (c) the possible financial effects of the Strategic Investor Issuance including the gross proceeds of HK\$150,000,000 in cash (in the event that the Strategic Investor Issuance is consummated).

5. SUFFICIENCY OF WORKING CAPITAL

As at the Latest Practicable Date, the Directors were of the opinion that, having taking into account the cash flows generated from the operating activities of the Group and the net proceeds to be received from the Strategic Investor Issuance, and in the absence of unforeseeable circumstances, the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

1. RESPONSIBILITY STATEMENTS

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.

This circular includes particulars given in compliance with the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular (other than that relating to the Concert Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than that expressed by the Concert Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

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

2. SHARE CAPITAL

The nominal value of the authorized and issued share capital of the Company (i) as at the Latest Practicable Date was; and (ii) immediately following the Issuances will be, as follows:

(a) As at the Latest Practicable Date

<i>Authorized:</i>	<i>US\$</i>
3,000,000,000 Shares of US\$0.0001 each	<u>300,000.00</u>
<i>Issued and fully paid or credited as fully paid:</i>	<i>US\$</i>
1,053,588,000 Shares of US\$0.0001 each	<u>105,358.80</u>

(b) Immediately following the Issuances

<i>Authorized:</i>	<i>US\$</i>
3,000,000,000 Shares of US\$0.0001 each	<u>300,000.00</u>
<i>Issued and fully paid or credited as fully paid:</i>	<i>US\$</i>
1,053,588,000 Shares of US\$0.0001 each as at the Latest Practicable Date	105,358.80
84,287,040 Shares of US\$0.0001 each to be allotted and issued under the Employee Issuance	8,428.70
100,000,000 Shares of US\$0.0001 each to be allotted and issued under the Strategic Investor Issuance	<u>10,000.00</u>
1,237,875,040 Shares of US\$0.0001 each in issue upon completion of the Issuances	<u>123,787.50</u>

Holders of the fully-paid Strategic Investor Shares and Employee Shares shall rank equally with each other and also equally with holders of other Shares in all respects including the rights in respect of capital, dividend and voting.

When issued and fully paid, the Strategic Investor Shares and the Employee Shares will rank *pari passu* in all respects with the Shares then in issue. Holders of the fully-paid Strategic Investor Shares and Employee Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of the Issuances in their fully-paid form.

The Shares are listed and traded on the Main Board of the Stock Exchange. No Shares are listed on or dealt in, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

Since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date, there had not been any alternation in the authorized or issued share capital of the Company or any of its subsidiaries.

3. DISCLOSURE OF INTERESTS

(a) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (d) pursuant to the Takeovers Code, to be notified to the Executive, were as follows:

Name of Director	Nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding
Mr. CHEN He (陳和)	Interest in a controlled corporation (Note 2)	21,250,000	2.02%
Mr. QIAN Pengcheng (錢鵬程)	Interest in a controlled corporation (Note 3)	14,500,000	1.38%
Mr. ZHANG Jinpeng (張金鵬)	Interest in a controlled corporation (Note 4)	12,500,000	1.19%

Notes:

- All interests are long positions.
- Mr. CHEN He (陳和) is deemed to be interested in the 21,250,000 Shares held by his wholly-owned investment holding vehicle Silver Apex Holdings Limited by virtue of the SFO.
- Mr. QIAN Pengcheng (錢鵬程) is deemed to be interested in the 14,500,000 Shares held by his wholly-owned investment holding vehicle Treasure Delight International Limited by virtue of the SFO.
- Mr. ZHANG Jinpeng (張金鵬) is deemed to be interested in the 12,500,000 Shares held by his wholly-owned investment holding vehicle Diamond Port Holdings Limited by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (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 or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (d) pursuant to the Takeovers Code, to be notified to the Executive.

(b) Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO:

Name of substantial Shareholder	Nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding
China Silver	Beneficial owner	500,000,033	47.46%
Blaze Loop Limited	Beneficial owner	166,025,000	15.76%
Mr. LIN Ting (林挺) (Note 2)	Interest of controlled corporation	166,025,000	15.76%
Caitong Funds SPC (for and on behalf of Caitong Pine Ocean New Economy Fund SP)	Beneficial owner	60,059,000	5.70%
Zhejiang Provincial Financial Development Company (浙江省財務開發公司) (Note 3)	Interest of controlled corporation	60,059,000	5.70%
Best Conduct Investments Limited	Beneficial owner	58,000,000	5.50%
Hardstone Investment Limited (Note 4)	Interest of controlled corporation	58,000,000	5.50%
Mr. SHI Jinglei (石勁磊) (Note 4)	Interest of controlled corporation	58,000,000	5.50%

Notes:

1. All interests are long positions.

2. Blaze Loop Limited was formed under the Existing Employee Share Scheme and is directly wholly owned by Mr. LIN Ting (林挺). Accordingly, Mr. LIN Ting (林挺) is deemed to be interested in the 166,025,000 Shares held by Blaze Loop Limited by virtue of the SFO. Mr. LIN Ting (林挺) is an employee of the Group and the trustee under the Existing Employee Share Scheme.
3. Zhejiang Provincial Financial Development Company (浙江省財務開發公司) is deemed to be interested in the 60,059,000 Shares held by Caitong Funds SPC (for and on behalf of Caitong Pine Ocean New Economy Fund SP) by virtue of the SFO through various controlled corporations, including Zhejiang Provincial Financial Holdings Co., Ltd. (浙江省金融控股有限公司), Caitong Securities Co., Limited (財通證券股份有限公司), Caitong Securities (Hong Kong) Co., Limited, Caitong International Asset Management Co., Limited, Caitong International Investment Co., Limited and Caitong International Overseas Investment Limited.
4. Best Conduct Investments Limited is directly owned as to 70% by Hardstone Investment Limited, which is in turn directly wholly owned by Mr. SHI Jinglei (石勁磊). Accordingly, each of Hardstone Investment Limited and Mr. SHI Jinglei (石勁磊) is deemed to be interested in the 58,000,000 Shares held by Best Conduct by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, there was no other person (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

(c) *The Concert Group*

Save for the Issuances, the Concert Group has not dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

As at the Latest Practicable Date, the Concert Group owned an aggregate of 510,479,569 Shares, all of which were directly held by China Silver and Chairman Chen as to 47.46% and 0.99% respectively. Other than the Employee Shares and the interests in the Shares held by members of the Concert Group as disclosed in the sub-paragraphs headed “(a) Directors and chief executive of the Company” and “(b) Substantial Shareholders” above, the Concert Group did not own or control any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company as at the Latest Practicable Date.

4. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE

(a) *Disclosure relating to the Company and the Directors*

As at the Latest Practicable Date:

- (i) there was no agreement, arrangement or understanding to transfer, charge or pledge any voting rights over the Strategic Investor Shares and/or the Employee Shares;

- (ii) no agreement, arrangement or understanding (including any compensation arrangement) existed between the Concert Group and any Director, recent director, Shareholder or recent shareholder of the Company having any connection with or dependence upon the Issuances and/or the Whitewash Waiver;
- (iii) the Company did not have any interest in the securities, options, warrants, convertible securities and derivatives of any member of Concert Group (where such entity is a company) and had no dealings in such securities, options, warrants, convertible securities and derivatives during the Relevant Period;
- (iv) save for the interests disclosed in the paragraph headed “3. Disclosure of interests” in this appendix, none of the Directors had any interest in the securities, options, warrants, convertible securities and derivatives of the Company or any member of the Concert Group (where such entity is a company) or had any dealings in such securities, options, warrants, convertible securities and derivatives during the Relevant Period;
- (v) none of the Directors had dealt for value in the securities, options, warrants, convertible securities and derivatives of the Company or any member of the Concert Group (where such entity is a company) during the Relevant Period;
- (vi) none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of any of its subsidiaries; nor (iii) any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code, had any interest in the securities, options, warrants, convertible securities and derivatives of the Company and/or had dealt in the securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period;
- (vii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code;
- (viii) no securities, options, warrants, convertible securities and derivatives of the Company were managed on a discretionary basis by any fund managers connected with the Company, nor did any such fund managers deal in any securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period;
- (ix) each of the Directors whose interests in the Shares are disclosed in the paragraph headed “3. Disclosure of interests” in this appendix intended to vote in favour of the resolutions to approve the Issuances, the Specific Mandate and the Whitewash Waiver at the EGM;

- (x) during the Relevant Period, no securities, options, warrants, convertible securities and derivatives of the Company had been borrowed or lent by any Director, the Company or the Concert Group;
- (xi) there was no agreement or arrangement between any Director and any other person which was conditional or dependent upon the outcome of the Issuances and/or the Whitewash Waiver or otherwise connected with the above matters; and
- (xii) no benefit had been given or will be given to any Director as compensation for loss of office or otherwise in connection with the Issuances and/or the Whitewash Waiver.

(b) Disclosure relating to the Concert Group

Save as disclosed in this circular, as at the Latest Practicable Date, no member of the Concert Group:

- (i) had acquired or entered into any agreement or arrangement to acquire any voting rights in the Company within the six months prior to the Latest Practicable Date up to and including the Latest Practicable Date;
- (ii) owned, controlled or had direction over any Shares, outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares, or had entered into any outstanding derivative in respect of securities in the Company;
- (iii) had any arrangement (whether by way of option, indemnity or otherwise) in relation to shares of China Silver or the Company and which might be material to the Issuances and/or the Whitewash Waiver;
- (iv) had any arrangement with any other persons in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and which might be material to the Issuances and/or the Whitewash Waiver;
- (v) had any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which it had borrowed or lent;
- (vi) had entered into any agreement or arrangement to which it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Issuances and/or the Whitewash Waiver;
- (vii) had received any irrevocable commitment from any Independent Shareholders as to whether they will vote for or against the resolutions to approve the Issuances, the Specific Mandate and the Whitewash Waiver at the EGM;

(viii) had any arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code with any other person, or was aware of any such arrangement between any associate of any member of the Concert Group on the one hand and any other person on the other hand; and

(ix) (1) had any intention other than that the Company will maintain its existing businesses after completion of the Issuances; (2) had any intention to introduce any major changes to the existing operation of the Company, or dispose of or downsize any of the Company's existing business; and (3) had any intention to re-deploy the fixed assets of the Company or to discontinue the employment of the employees of the Company and its subsidiaries.

5. DIRECTORS' DETAILS AND SERVICE CONTRACTS

Please refer to the section headed "Directors and Parties Involved in the Global Offering" in the Prospectus for the Directors' residential addresses, and the section headed "Biographies of Directors" in the 2018 Annual Report for the Directors' biographical details.

Each of the Directors has entered into a service contract with the Company for a term of not more than three years until terminated by not less than three months' notice in writing served by either party on the other. Particulars of the Directors' service contracts are set out as follows:

Director	Remuneration under the service contract^(Note 1)	Term of the service contract^(Note 2)
Mr. CHEN He (陳和)	HK\$120,000 per month	From 13 March 2018 (the date of the Company's listing) till the earlier of 12 March 2021 and the date of the Company's third annual general meeting after its listing
Mr. ZHANG Jinpeng (張金鵬)	HK\$100,000 per month	
Mr. QIAN Pengcheng (錢鵬程)	HK\$50,000 per month	
Mr. FU Lui (府磊)	HK\$200,000 per year	From 13 March 2018 (the date of the Company's listing) till 12 March 2021
Mr. HU Qilin	HK\$200,000 per year	
Mr. ZHANG Zuhui (張祖輝)	HK\$200,000 per year	

Notes:

1. The service contract for each Director does not provide for any variable remuneration.
2. The term is subject to renewal upon mutual agreement between the Company and the relevant Director and in accordance with the Company's articles of association and the Listing Rules.

Furthermore, each of the executive Directors has entered into an employment contract with Shenzhen Guoyintongbao Company Limited (深圳國銀通寶有限公司) (a wholly-owned subsidiary of the Company) for a term of three to five years until terminated by not less than 30 days' notice in writing served by the employee to the employer. Particulars of the executive Directors' employment contracts are set out as follows:

Director	Remuneration under the employment contract^(Note)	Term of the employment contract
Mr. CHEN He (陳和)	RMB10,000 per month	From 1 September 2018 till 31 August 2023
Mr. ZHANG Jinpeng (張金鵬)	RMB15,000 per month plus a discretionary performance-based bonus determined by the senior management of Shenzhen Guoyintongbao Company Limited (深圳國銀通寶有限公司)	From 1 October 2017 till 30 September 2020
Mr. QIAN Pengcheng (錢鵬程)	RMB10,000 per month	From 1 September 2018 till 31 August 2023

Note: The employment contract for each of Mr. CHEN He (陳和) and Mr. QIAN Pengcheng (錢鵬程) does not provide for any variable remuneration.

Please refer to note 11 to the Company's consolidated financial statements for the year ended 31 December 2018 on page 87 of the 2018 Annual Report for each Director's total emoluments in 2018.

Except as aforesaid, none of the Directors has or is proposed to have any service contracts with the Company or any of its subsidiaries (excluding contracts (if any) expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Except as aforesaid, none of the Directors has or is proposed to have any service contracts with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contracts) had been entered into or amended during the Relevant Period; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

6. DIRECTORS' INTERESTS IN THE COMPANY'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE COMPANY

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to the Company;

- (b) none of the Directors was materially interested in any contract or arrangement entered into by the Company which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Company as a whole; and
- (c) there was no material contract entered into by any member of the Concert Group in which any Director had a material personal interest.

7. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the Group's sales to its five largest customers and its largest customer accounted for 40.1% and 10.9% of the Group's total sales respectively.

For the year ended 31 December 2018, the Group's five largest suppliers and the largest supplier accounted for 71.8% and 23.6% of the Group's total purchases respectively.

As at the Latest Practicable Date, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.

8. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company, had been entered into by the Company and are or may be material:

- (a) the agreement dated 9 August 2017 entered into among Shenzhen Yinruiji Cultural Development Company Limited (深圳銀瑞吉文化發展有限公司) (formerly accounted for as a subsidiary of the Company), Shenzhen Guoyintongbao Company Limited (深圳國銀通寶有限公司) (a wholly-owned subsidiary of the Company), Mr. CHEN He (陳和), Mr. QIAN Pengcheng (錢鵬程) and Baiyin Town (Shanghai) Cultural Industry Company Limited (白銀小鎮(上海)文化產業有限公司) (a wholly-owned subsidiary of the Company) to terminate certain contractual arrangements involving the Company's subsidiaries, details of which are set out in the section headed "History, Reorganisation and Group Structure — Our Former Subsidiaries and the Terminated Contractual Arrangements — Termination of the Contractual Arrangements" in the Prospectus;
- (b) the equity interest transfer agreement dated 18 August 2017 entered into between Jiangxi Jiyin Company Limited (江西吉銀實業有限公司) (a wholly-owned subsidiary of the Company) ("**Jiangxi Jiyin**") and Jiangxi Huake Industrial Co., Ltd. (江西華科實業有限公司) (a third party independent of the Company) ("**Jiangxi Huake**"), pursuant to which Jiangxi Jiyin agreed to transfer its 20% equity interest in Yongfeng County Tongsheng Microcredit Company Limited (永豐縣通盛小額貸款股份有限公司) to Jiangxi Huake for a consideration of RMB0.6 million in cash;
- (c) the deed of non-competition dated 13 February 2018 and executed by China Silver in favour of the Company, details of which are set out in the section headed "Relationship with Our Controlling Shareholder — Non-Competition Undertaking" in the Prospectus;

- (d) the deed of indemnity dated 13 February 2018 and executed by China Silver in favour of the Company (for itself and as trustee for its subsidiaries), details of which are set out in the section headed “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 5. Indemnity Given by the Controlling Shareholder” in Appendix V to the Prospectus;
- (e) the Hong Kong underwriting agreement dated 26 February 2018, relating to the Hong Kong public offering of 19,420,000 Shares under the Global Offering (with an underwriting commission of 2.9% and an incentive fee of up to 1.0% payable by the Company) entered into by, among others, the Company and China Silver, details of which are set out in the section headed “Underwriting — Underwriting Arrangements and Expenses — Underwriting Agreements — Hong Kong Public Offering — Hong Kong Underwriting Agreement” in the Prospectus;
- (f) the international underwriting agreement dated 11 March 2018, relating to the international offering of 174,763,990 Shares (plus up to 29,127,598 additional Shares if the over-allotment option is exercised) under the Global Offering (with an underwriting commission of 2.9% and an incentive fee of up to 1.0% payable by the Company) entered into by, among others, the Company and China Silver, details of which are set out in the section headed “Underwriting — Underwriting Arrangements and Expenses — Underwriting Agreements — International Offering — International Underwriting Agreement” in the Prospectus;
- (g) the bid-winning confirmation letter dated 23 August 2018 entered into between Huzhou Baiyin Property Co., Ltd. (湖州白銀置業有限公司) (a wholly-owned subsidiary of the Company) (“**Huzhou Baiyin**”) and Huzhou Municipal Bureau of Land and Resources (湖州市國土資源局) (a third party independent of the Company) (the “**Huzhou Bureau**”) in relation to Huzhou Baiyin’s preferred bid for the land use rights over a plot of land situated in Huzhou, Zhejiang province, the PRC (the “**Huzhou Land Use Rights**”) for a deposit of RMB57 million in cash;
- (h) the assignment contract dated 3 September 2018 entered into among Huzhou Baiyin, the Huzhou Bureau and Taihu Tourism and Resort Area Management Committee (太湖旅遊度假區管理委員會) in relation to Huzhou Baiyin’s acquisition of the Huzhou Land Use Rights for a consideration of RMB285 million in cash;
- (i) the Employee Subscription Agreement;
- (j) the Employee Trust Deed; and
- (k) the Strategic Investor Subscription Agreement.

9. MARKET PRICE

The table below sets out the closing prices of the Shares on the Stock Exchange (i) at the end of each calendar month during the Relevant Period; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date.

Date	Closing Price of the Shares HK\$
30 November 2018	1.19
31 December 2018	1.18
31 January 2019	1.11
28 February 2019	1.04
29 March 2019	1.00
30 April 2019	0.92
6 May 2019 (being the Last Trading Day)	0.85
31 May 2019	0.70
28 June 2019	0.57
26 July 2019 (being the Latest Practicable Date)	0.53

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK\$0.53 on 13 June 2019 and 9, 17, 18, 23, 24 and 26 July 2019, and HK\$1.28 on 14 December 2018, respectively.

10. MATERIAL LITIGATION

The Group was not engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against the Group as at the Latest Practicable Date.

11. EXPERT AND CONSENT

The following are the respective names and qualifications of the experts who have given their opinions or advice which are included in this circular:

Name	Qualification
Red Sun Capital Limited	Licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, each of the experts named above:

- (a) had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letter, report and/or summary of its opinions and references to its name and logo in the form and context in which they are included;
- (b) was not beneficially interested in the share capital of the Company nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company; and
- (c) did not have any direct or indirect interest in any assets which had since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company.

12. MISCELLANEOUS INFORMATION

- (a) The registered office of the Company is at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands and its principal place of business in Hong Kong is at Unit 1417, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong.
- (b) The company secretary of the Company is Ms. CHAN Sau Ling (陳秀玲), who is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, and is also a holder of the practitioner's endorsement from The Hong Kong Institute of Chartered Secretaries.
- (c) The authorized representatives of the Company are Mr. CHEN He (陳和) and Ms. CHAN Sau Ling (陳秀玲).
- (d) The Cayman Islands share registrar and transfer office of the Company is Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands.
- (e) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Limited, Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (f) The auditors of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, are located at 35th Floor, One Pacific Place, 88 Queensway, Hong Kong.

- (g) The principal banks of the Company are China Merchants Bank Co., Ltd. (招商銀行股份有限公司) of 7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, the PRC, and Industrial Bank Co., Ltd. (興業銀行股份有限公司) of 154 Hudong Road, Fuzhou, Fujian Province, the PRC.
- (h) The addresses of members of the Concert Group (and, where applicable, their respective investment holding vehicles) are as follows:
- (i) China Silver (registered office): Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands;
 - (ii) China Silver (principal place of business in Hong Kong): Unit 1416, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong;
 - (iii) Chairmen Chen (work address): 6th Floor and Unit A of 5th Floor, Baolin International Gold Jewelry Trade Center, 2nd Building, 3 Shuitian Second Street, Shuibei First Avenue, Cuizhu Block, Luohu District, Shenzhen, Guangdong Province, the PRC;
 - (iv) Rich Union Enterprises Limited (registered office): P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands;
 - (v) Ms. Xue (work address): 6th Floor and Unit A of 5th Floor, Baolin International Gold Jewelry Trade Center, 2nd Building, 3 Shuitian Second Street, Shuibei First Avenue, Cuizhu Block, Luohu District, Shenzhen, Guangdong Province, the PRC; and
 - (vi) Ascend Delight (registered office): Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
- (i) The Independent Financial Adviser is Red Sun Capital Limited whose address is at Room 3303, 33/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. on any Business Day at the principal place of business of the Company in Hong Kong at Unit 1417, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong; (ii) on the website of the Company (en.corp.csmall.com); and (iii) on the website of the Securities and Futures Commission of Hong Kong (www.sfc.hk), from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the 2017 Annual Report and the 2018 Annual Report;
- (c) the Prospectus;

- (d) the letter from the Board, the text of which is set out the section headed “Letter from the Board” of this circular;
- (e) the letter of advice from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this circular;
- (f) the letter of advice from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” of this circular;
- (g) the reports on the Profit Warning Announcement from the Company’s reporting accountants and the Independent Financial Adviser, the text of which is set out in Appendix III to this circular;
- (h) the service contracts and employment contracts referred to in the paragraph headed “5. Directors’ details and service contracts” in this appendix;
- (i) the material contracts referred to in the paragraph headed “8. Material contracts” in this appendix;
- (j) the written consents referred to in the paragraph headed “11. Expert and consent” in this appendix; and
- (k) this circular.

14. GENERAL

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

1. PROFIT WARNING ANNOUNCEMENT

The following is the full text of the Profit Warning Announcement, which is repeated in full in this circular pursuant to Rule 10.4 of the Takeovers Code.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

金猫银猫 CSmall

买珠宝只选金猫银猫

CSMall Group Limited
金猫银猫集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1815)

PROFIT WARNING
AND
FURTHER DELAY IN DESPATCH OF CIRCULAR

PROFIT WARNING

This section of this announcement is issued by CSMall Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”).

The board of directors of the Company (the “**Board**”, and its members, the “**Directors**”) wishes to inform the shareholders of the Company (the “**Shareholders**”) and potential investors that, based on the Group’s unaudited consolidated management accounts for January to May 2019 and preliminary sales records for June 2019 (both of which have not been confirmed, reviewed or audited by the Company’s auditors or audit committee) and other information currently available to the Group, the Group expects to record a material decrease in its net profit attributable to owners of the Company for the six months ended 30 June 2019 (“**1H 2019**”) as compared to that for the six months ended 30 June 2018 (the “**Profit Warning Statement**”). Such expected decrease is mainly attributable to the decline in sales volume during 1H 2019.

The Company is in the process of finalizing its interim results for 1H 2019. Detailed financial information and performance of the Group for 1H 2019 will be disclosed in the Company's interim results announcement for 1H 2019 which is expected to be published by the end of August 2019.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

FURTHER DELAY IN DESPATCH OF CIRCULAR

Reference is made to (i) the announcement jointly issued by the Company and China Silver Group Limited (Stock Code: 815) on 6 May 2019 regarding, among other things, the Issuances, the Specific Mandate and the Whitewash Waiver (the “**Joint Announcement**”); and (ii) the announcement issued by the Company on 24 May 2019 regarding the delay in the despatch of the Circular (the “**First Delay Announcement**”). Unless otherwise defined herein, capitalized terms used in this section of this announcement shall have the same meanings as those defined in the Joint Announcement or (if not defined therein) in the First Delay Announcement.

The Profit Warning Statement is considered to constitute a profit forecast under Rule 10 of the Takeovers Code. As such, the Company is required to comply with the requirements under Rule 10 of the Takeovers Code with respect to the Profit Warning Statement which has to be reported on by the Company's auditors and financial advisers and repeated in full, together with such reports, in the next document to be despatched to the Shareholders, being the Circular. Taking into account (i) the practical difficulties in terms of the additional time required for the preparation of the aforesaid reports by the Company's auditors and financial advisers; and (ii) the requirement for timely disclosure of inside information under Rule 13.09 of the Listing Rules and Part XIVA of the SFO, the Profit Warning Statement does not meet the standard required by Rule 10 of the Takeovers Code. The Company has arranged for the Profit Warning Statement to be reported on in the Circular in accordance with Rule 10 of the Takeovers Code.

It was stated in the First Delay Announcement that the Executive had indicated that it was minded to grant, and an application would be made by the Company to the Executive pursuant to Rule 8.2 of the Takeovers Code for, its consent to an extension of time for the despatch of the Circular to the Shareholders to a date falling on or before 2 July 2019. However, as more time is now required by the Company's auditors and financial advisers to prepare and finalize the aforesaid reports on the Profit Warning Statement and by the Independent Financial Adviser to update its letter of advice in light of the Profit Warning Statement, an application has been made by the Company to the Executive pursuant to Rule 8.2 of the Takeovers Code for, and the Executive has indicated that it is minded to grant, its consent to a further extension of time for the despatch of the Circular to the Shareholders to a date falling on or before 31 July 2019.

Shareholders and potential investors should note that the Profit Warning Statement does not meet the standard required by Rule 10 of the Takeovers Code and has not yet been reported on in accordance with the Takeovers Code. Accordingly, Shareholders and potential investors are advised to exercise caution when placing reliance on the Profit Warning Statement in assessing the merits and demerits of the Issuances, the Specific Mandate and the Whitewash Waiver.

By order of the Board
CSMall Group Limited
Chen He
Chairman

Hong Kong, 2 July 2019

As at the date of this announcement, the executive directors of the Company are Mr. Chen He, Mr. Zhang Jinpeng and Mr. Qian Pengcheng; and the independent non-executive directors of the Company are Mr. Fu Lui, Mr. Hu Qilin and Mr. Zhang Zuhui.

This announcement, 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 announcement 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 announcement misleading.

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

2. BASES OF PREPARATION OF THE PROFIT WARNING ANNOUNCEMENT

The Directors confirm that the section headed “Profit Warning” in the Profit Warning Announcement was prepared based on the unaudited consolidated management accounts of the Group for the five months ended 31 May 2019 and an estimate of the consolidated results of the Group for the remaining one month ended 30 June 2019, which had been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the 2018 Annual Report, except for certain new and amendments to International Financial Reporting Standards issued by the International Accounting Standards Board which are applicable for the Group’s annual period beginning on 1 January 2019.

The Directors further confirm that the aforesaid estimate of the consolidated results of the Group for the remaining one month ended 30 June 2019 was prepared based on the Group’s preliminary sales records for June 2019 and an estimation of the Group’s gross profit margin, operating expenses and income tax expense with reference to historical data.

3. REPORT FROM DELOITTE TOUCHE TOHMATSU

The following is the full text of the report on the Profit Warning Announcement from Deloitte Touche Tohmatsu, the Company's reporting accountants, for the purpose of inclusion in this circular.

Deloitte.**德勤**

31 July 2019

The Board of Directors
CSMall Group Limited
Room 1417, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan
Hong Kong

Dear Sirs,

CSMall Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”)

Profit Estimate for the Six Months Ended 30 June 2019

We refer to the statement as set out in the announcement of the Company dated 2 July 2019 in respect of the profit warning made by the directors of the Company, which contains an estimate of unaudited consolidated net profit of the Group attributable to owners of the Company for the six months ended 30 June 2019 (the “**Profit Estimate**”) as extracted below:

“The board of directors of the Company wishes to inform the shareholders of the Company and potential investors that, based on the Group’s unaudited consolidated management accounts for January to May 2019 and preliminary sales records for June 2019 (both of which have not been confirmed, reviewed or audited by the Company’s auditors or audit committee) and other information currently available to the Group, the Group expects to record a material decrease in its net profit attributable to owners of the Company for the six months ended 30 June 2019 (“**1H 2019**”) as compared to that for the six months ended 30 June 2018. Such expected decrease is mainly attributable to the decline in sales volume during 1H 2019.”

We have been advised by the directors of the Company that the Profit Estimate was prepared based on the unaudited consolidated management accounts of the Group for the five months ended 31 May 2019 and an estimate of the consolidated results of the Group for the remaining one month ended 30 June 2019, which had been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the published annual report of the

Company for the year ended 31 December 2018, except for certain new and amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) which are applicable for the Group’s annual period beginning on 1 January 2019.

The Profit Estimate is prepared by the directors of the Company and constitutes a profit forecast under Rule 10 of the Code on Takeovers and Mergers issued by The Securities and Futures Commission.

Directors’ Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the unaudited consolidated management accounts of the Group for the five months ended 31 May 2019 and an estimate of the consolidated results of the Group for the remaining one month ended 30 June 2019.

The Company’s directors are solely responsible for the Profit Estimate.

Our Independence and Quality Control

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

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

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors of the Company and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors of the Company as set out in the paragraph headed “2. Bases of preparation of the Profit Warning Announcement” in Appendix III to the circular dated 31 July 2019 issued by the Company and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2018, except for certain new and amendments to IFRSs issued by the IASB which are applicable for the Group’s annual period beginning on 1 January 2019.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

4. REPORT FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the report on the Profit Warning Announcement from Red Sun Capital Limited, the Independent Financial Adviser, for the purpose of inclusion in this circular.



紅日資本有限公司
RED SUN CAPITAL LIMITED

31 July 2019

The board of directors
CSMall Group Limited
Unit 1417, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan
Hong Kong

Dear Sirs,

We refer to the announcement dated 2 July 2019 (the “**Profit Warning Announcement**”) issued by CSMall Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”). Capitalised terms used in this letter shall have the same meanings as defined in the Profit Warning Announcement unless otherwise specified.

We also refer to the Profit Warning Statement made by the Directors in the Profit Warning Announcement, that, based on the Group’s unaudited consolidated management accounts for January to May 2019 and preliminary sales records for June 2019 (both of which have not been confirmed, reviewed or audited by the Company’s auditors or audit committee) and other information then available to the Group, the Group expected to record a material decrease in its net profit attributable to owners of the Company for the six months ended 30 June 2019 as compared to that for the six months ended 30 June 2018 (the “**Profit Estimate**”). The Profit Estimate is regarded as a profit forecast under the Takeovers Code and therefore, is required to be reported on pursuant to Rule 10 of the Takeovers Code.

As advised by you, the Profit Estimate was prepared by the Directors based on (i) the unaudited consolidated management accounts for the five months ended 31 May 2019; and (ii) an estimate of the consolidated results of the Group for the remaining one month ended 30 June 2019 which had been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the published annual report of the Company for the year ended 31 December 2018, except for certain new and amendments to International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”) which are applicable for the Group’s annual period beginning on 1 January 2019.

We have discussed with you the bases upon which the Profit Estimate was prepared. We have also considered the report from Deloitte Touche Tohmatsu dated 31 July 2019 issued by Deloitte Touche Tohmatsu, the reporting accountants of the Company (the “**Report from Deloitte Touche Tohmatsu**”), to you, which stated in the paragraph headed “Opinion” that, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the Directors as set out in the paragraph headed “2. Bases of preparation of the Profit Warning Announcement” in Appendix III to the circular dated 31 July 2019 issued by the Company and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2018, except for certain new and amendments to IFRSs issued by the IASB which are applicable for the Group’s annual period beginning on 1 January 2019.

Based on the above, we are satisfied that the Profit Estimate, for which the Directors are solely responsible, has been made with due care and consideration.

Yours faithfully,
For and on behalf of
RED SUN CAPITAL LIMITED
Lewis Lai
Managing Director

NOTICE OF EGM



CSmall Group Limited 金貓銀貓集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1815)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of CSmall Group Limited (the “**Company**”) will be held at Unit 1415, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong on Friday, 16 August 2019 at 2:00 p.m. for the purpose of considering and, if thought fit, passing each of the following resolutions, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. “THAT subject to and conditional upon:

- (a) the grant of the waiver (the “**Whitewash Waiver**”) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate thereof (the “**Executive**”) pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Code on Takeovers and Mergers of Hong Kong (the “**Takeovers Code**”) of any obligation on the part of the Concert Group (as defined in the circular of the Company dated 31 July 2019 (the “**Circular**”, a copy of which marked “A” and signed by the chairman of the EGM for identification purpose has been tabled at the EGM)) to make a mandatory general offer to the holders of securities of the Company to acquire securities of the Company other than those already owned or agreed to be acquired by the Concert Group, which would otherwise arise under Rule 26 of the Takeovers Code as a result of the Employee Issuance and the Voting Arrangement (each as defined in the Circular);
- (b) all necessary conditions attached to the Whitewash Waiver (if any) having been satisfied; and
- (c) the Whitewash Waiver not having been withdrawn by the Executive,

the Whitewash Waiver be and is hereby approved and the board of directors of the Company (the “**Board**”) or a committee thereof be and is hereby authorized to do all such acts and things, to sign and execute such documents or agreements or deed on behalf of the Company and to do such other things and to take all such actions as it considers necessary, appropriate, desirable or expedient for the purposes of giving effect to or implementing or in connection with the Whitewash Waiver.”

NOTICE OF EGM

2. **“THAT** subject to and conditional upon the passing of the resolution numbered 1 in the notice of the EGM:
- (a) (i) the subscription agreement dated 6 May 2019 entered into among the Company (as the issuer), Ascend Delight Holdings Limited (as the subscriber) and Ms. XUE Meiqi (as the guarantor) (the **“Employee Subscription Agreement”**, a copy of which marked **“B”** and signed by the chairman of the EGM for identification purpose has been tabled at the EGM); (ii) the trust deed dated 6 May 2019 entered into among Ascend Delight Holdings Limited (as the settlor), Ms. XUE Meiqi (as the trustee) and the Company (the **“Employee Trust Deed”**, a copy of which marked **“C”** and signed by the chairman of the EGM for identification purpose has been tabled at the EGM); and (iii) the subscription agreement dated 6 May 2019 entered into between the Company (as the issuer) and Mr. YAO Runxiong (as the subscriber) (the **“Strategic Investor Subscription Agreement”**, a copy of which marked **“D”** and signed by the chairman of the EGM for identification purpose has been tabled at the EGM) and all other transactions contemplated under the aforesaid agreements in accordance with the terms and conditions set forth therein be and are hereby approved, confirmed and ratified;
 - (b) the Board be and is hereby granted a specific mandate (the **“Specific Mandate”**) to exercise the powers of the Company to allot and issue 184,287,040 ordinary shares (the **“Issuance Shares”**) of US\$0.0001 each in the share capital of the Company, where (i) the Issuance Shares, when issued and fully paid, shall rank *pari passu* among themselves in all respects and with all fully paid ordinary shares of the Company in issue as at the date of allotment and issue; and (ii) the Specific Mandate is in addition to, and shall not prejudice nor revoke any general and/or other specific mandate(s) which has/have been granted or may from time to time be granted to the Board prior to the passing of this resolution;
 - (c) the Board or a committee thereof be and is hereby specifically authorized to allot and issue the Issuance Shares in accordance with the terms and conditions of the respective agreements outlined in (a) above; and

NOTICE OF EGM

- (d) the Board or a committee thereof be and is authorized to do all such acts and things, to sign and execute such documents or agreements or deed on behalf of the Company and to do such other things and to take all such actions as it considers necessary, appropriate, desirable or expedient for the purposes of giving effect to or implementing or in connection with the Issuances and the Voting Arrangement (each as defined in the Circular) and to agree to such variation, amendments or waiver or matters relating thereto (excluding any variation, amendments or waiver of such documents or any terms thereof, which are fundamentally and materially different from those as provided for in the agreements outlined in (a) above and which shall be subject to approval of the shareholders of the Company) as are, in the opinion of the Board or a committee thereof, in the interest of the Company and its shareholders as a whole.”

By order of the Board
CSMall Group Limited
CHEN He
Chairman

Hong Kong, 31 July 2019

Registered office:

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
George Town
Grand Cayman
KY1-9007
Cayman Islands

Principal place of business in Hong Kong:

Unit 1417, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan, Hong Kong

Notes:

1. A form of proxy for use at the EGM or any adjournment thereof is enclosed.
2. For determining the entitlement of shareholders of the Company to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 13 August 2019 to Friday, 16 August 2019 (both days inclusive) during which period no transfer of Shares will be effected. In order to qualify for the entitlement to attend and vote at the EGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar and transfer office in Computershare Hong Kong Investor Limited at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. (Hong Kong time) on Monday, 12 August 2019.
3. A member entitled to attend and vote at the EGM convened by this notice shall be entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at a general meeting of the Company. A proxy need not be a member of the Company.

NOTICE OF EGM

4. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed, or a certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Computershare Hong Kong Investor Limited at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding any adjourned meeting.
5. Each of China Silver and persons acting in concert or presumed to be acting in concert with it, including Mr. CHEN Wantian and Ms. XUE Meiqi, which are interested in an aggregate of 510,479,569 Shares as at the date of this notice, will abstain from voting on the above ordinary resolutions to be proposed at the EGM to approve the Issuances, the Specific Mandate, the allotment and issue of the Issuance Shares under the Specific Mandate and the Whitewash Waiver.
6. As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Code on Takeovers and Mergers of Hong Kong, the above resolution will be decided by way of poll.
7. As of the date of this notice, the executive directors of the Company are Mr. CHEN He, Mr. ZHANG Jinpeng and Mr. QIAN Pengcheng, and the independent non-executive directors of the Company are Mr. FU Lui, Mr. HU Qilin and Mr. ZHANG Zuhui.