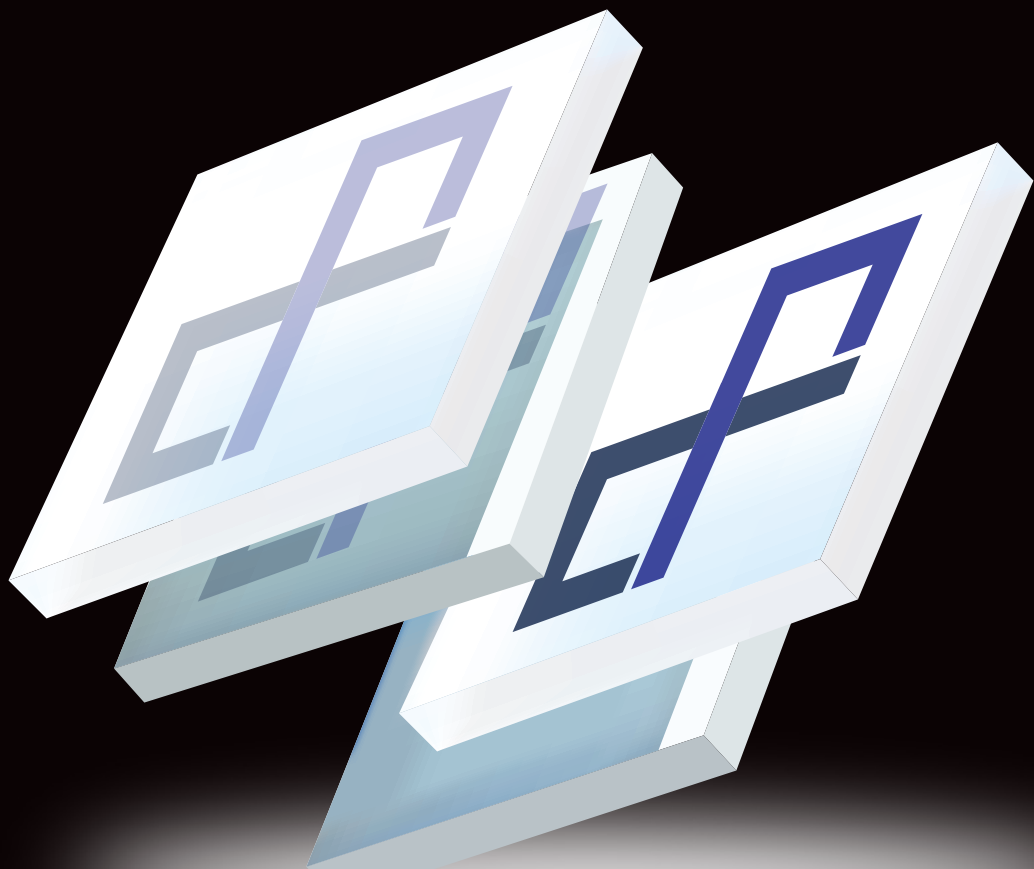




P.B. Group Limited
倍搏集團有限公司

(incorporated in Cayman Islands with limited liability)

(Stock code: 8331)



2021
THIRD QUARTERLY REPORT

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the companies listed on GEM are generally small and mid-sized, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of P.B. Group Limited (the “Company”, together with its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM 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 report 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 report misleading.



THIRD QUARTERLY RESULTS FOR 2021 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months and nine months ended 30 September 2021 (the "Reporting Period"), together with the comparative unaudited figures for the corresponding periods in 2020 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2021

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2021 CNY'000 (Unaudited)	2020 CNY'000 (Unaudited)	2021 CNY'000 (Unaudited)	2020 CNY'000 (Unaudited)
Revenue	3	19,138	17,508	52,125	38,922
Cost of sales		(9,684)	(7,693)	(27,257)	(18,397)
Gross profit		9,454	9,815	24,868	20,525
Other income		686	41	1,362	577
Selling and distribution expenses		(1,842)	(2,478)	(6,964)	(7,007)
Administrative and other expenses		(4,927)	(5,283)	(15,687)	(12,798)
Finance costs		(116)	(111)	(404)	(334)
Profit before tax		3,255	1,984	3,175	963
Income tax expense	4	(659)	(752)	(1,170)	(805)
Profit for the period		2,596	1,232	2,005	158
Other comprehensive income, net of tax					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations		(1)	–	(18)	–
Other comprehensive income for the period, net of tax		(1)	–	(18)	–
Total comprehensive income for the period		2,595	1,232	1,987	158
Profit for the period attributable to owners of the Company		2,596	1,232	2,005	158
Total comprehensive income for the period attributable to owners of the Company		2,595	1,232	1,987	158
Earnings per share (CNY):					
Basic and diluted	6	0.33 cents	0.18 cents	0.25 cents	0.02 cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2021

	Share capital CNY'000	Share premium CNY'000	Other reserve CNY'000	Statutory reserve CNY'000	Safety fund and production maintenance fund CNY'000	Foreign currency translation reserve CNY'000	Accumulated losses CNY'000	Total CNY'000
At 1 January 2020 (audited)	5,688	126,103	23,351	5,192	1,338	-	(81,505)	80,167
Profit for the period and total comprehensive income for the period	-	-	-	-	-	-	158	158
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	451	110	-	(851)	(290)
At 30 September 2020 (unaudited)	<u>5,688</u>	<u>126,103</u>	<u>23,351</u>	<u>5,643</u>	<u>1,448</u>	<u>-</u>	<u>(82,198)</u>	<u>80,035</u>
At 1 January 2021 (audited)	6,753	130,704	23,351	6,390	1,552	282	(75,714)	93,318
Profit for the period	-	-	-	-	-	-	2,005	2,005
Exchange difference arising on translation of financial statement of foreign operation	-	-	-	-	-	(18)	-	(18)
Other comprehensive income for the period	-	-	-	-	-	(18)	-	(18)
Total comprehensive income for the period	-	-	-	-	-	(18)	2,005	1,987
Appropriation to statutory reserve	-	-	-	720	-	-	(720)	-
Appropriation and utilisation of safety fund and production maintenance fund, net	-	-	-	-	151	-	(151)	-
At 30 September 2021 (unaudited)	<u>6,753</u>	<u>130,704</u>	<u>23,351</u>	<u>7,110</u>	<u>1,703</u>	<u>264</u>	<u>(74,580)</u>	<u>95,305</u>

Notes:

(i) Other reserve

It represents (i) the capital contribution from the previous controlling shareholder, Mr. Li Feilie of Feishang International Holdings Limited ("Feishang International") during the fiscal year of 2002 to 2003; and (ii) the difference between the nominal value of the issued share capital of the Company and share capital of the then holding company, Feishang International, upon the group reorganisation.

(ii) Statutory reserve

As required by applicable law and regulations, entities established and operated in the People's Republic of China (the "PRC") shall set aside/appropriate a portion of its after tax profits of each period to fund statutory reserve. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

(iii) Safety fund and production maintenance fund

As stipulated by the State Administration of Work Safety of the PRC, Wuhu Feishang Non-metallic Material Company Limited (蕪湖飛尚非金屬材料有限公司) ("Feishang Material") is required to accrue the safety production fund and the production maintenance fund which is based on the production volume for the utilisation of future safety production expense.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

For the three months and nine months ended 30 September 2021

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 15 July 2015 and its shares were listed on GEM of the Stock Exchange on 29 December 2015. As at the date of this report, its ultimate controlling shareholder is Mr. Zhang Qiang (張強), who held approximately 34.57% interests in the Company, continued to be the single largest shareholder of the Company.

The address of the registered office of the Company is 71 Fort Street, P.O. Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands and the address of the principal place of business of the Company in Hong Kong is Room 402A, 4/F., Park Commercial Centre, 180 Tung Lo Wan Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in bentonite mining, production and sales of drilling mud and pelletising clay and financial services business.

The unaudited condensed consolidated financial statements of the Group are presented in Chinese Yuan ("CNY"), which is also the functional currency of the Company. CNY is the currency of the primary economic environment in which the principal subsidiary of the Company operates (the functional currency of the principal subsidiary).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2021 (the "Third Quarterly Financial Statements") have been prepared in accordance with the applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") and the applicable disclosure requirements of the GEM Listing Rules.

The Third Quarterly Financial Statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the Third Quarterly Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020.

The Group has not early applied the new and revised IFRSs that have been issued but are not yet effective.

3. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports which provides information about components of the Group. Information are reported to and reviewed by the chief operating decision maker for the purposes of resource allocation and performance assessment.

For management purpose, the Group has two reportable and operating segments: (i) bentonite mining, production and sales of drilling mud and pelletising clay and (ii) financial services business.

Revenue represents the sales of drilling mud and pelletising clay, wealth management service income, loan interest income and guarantee service fee income.

An analysis of revenue is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2021	2020	2021	2020
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Drilling mud	5,029	4,984	14,070	10,338
Pelletising clay	11,700	12,241	31,369	27,735
Total revenue of bentonite mining	16,729	17,225	45,439	38,073
Wealth management services income	1,686	–	4,843	–
Loan interest income	440	–	994	–
Guarantee service fee income	283	283	849	849
Total revenue of financial services	2,409	283	6,686	849
Total revenue	19,138	17,508	52,125	38,922

4. INCOME TAX EXPENSE

	Three months ended 30 September		Nine months ended 30 September	
	2021	2020	2021	2020
	CNY'000	CNY'000	CNY'000	CNY'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
PRC Enterprise Income Tax ("EIT")	873	719	1,270	927
Deferred taxation:				
Current period	(214)	33	(100)	(122)
	<u>659</u>	<u>752</u>	<u>1,170</u>	<u>805</u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made for both periods as the Group did not have any assessable profits subject to Hong Kong Profits Tax.
- (iii) Under the Law of the PRC on EIT ("EIT Law") and implementation regulation of the EIT Law, the tax rate of the subsidiaries established in the PRC other than Feishang Material is 25% for both periods.
- (iv) Feishang Material was recognised as a High Technology Enterprise and subject to EIT at 15% in accordance with the EIT Law for both periods.

5. DIVIDEND

No dividend was paid, declared or proposed by the Group during the Reporting Period (nine months ended 30 September 2020: nil).

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following:

	Three months ended 30 September		Nine months ended 30 September	
	2021 <i>CNY'000</i> (Unaudited)	2020 <i>CNY'000</i> (Unaudited)	2021 <i>CNY'000</i> (Unaudited)	2020 <i>CNY'000</i> (Unaudited)
Earnings				
Earnings for the purpose of basic and diluted earnings per share	2,596	1,232	2,005	158
	Three months ended 30 September		Nine months ended 30 September	
	2021	2020	2021	2020
Number of shares				
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (<i>000 shares</i>)	795,572	670,572	795,572	670,572
Basic and diluted earnings per share (<i>CNY</i>)	0.33 cents	0.18 cents	0.25 cents	0.02 cents

Note:

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding for both periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Bentonite Mining

Stepping into 2021, while the COVID-19 pandemic continued to cause disruptions in business operations and to the economy around the globe, the People's Republic of China (the "PRC") has continued to keep COVID-19 under control and achieved steady economic growth as compared to the corresponding period in 2020. During the first three quarters of 2021, the PRC's gross domestic product ("GDP") grew at a rate of 9.8% year-on-year. On a quarter-on-quarter basis, the PRC's GDP growth rates in the first, second and third quarters of 2021 were 0.2%, 1.2% and 0.2%, respectively. Economic growth in the third quarter was adversely affected by extreme weather, disruptions in global supply chains and the surge in the prices of coal and other raw materials essential for industrial production. Since late August 2021, industrial production has also been disrupted by widespread power shortage due to energy consumption control and exceptionally high price of coal. The Group's production was not affected by the energy consumption control policies for the time being, but some downstream industries, especially the energy-intensive iron and steel industry, were adversely affected. This in turn had some adverse impacts on bentonite demand. Nevertheless, industrial production, consumption and investment in fixed assets continued to maintain solid growth, lending support to bentonite demand from downstream industries including the iron and steel and energy sectors. During the Reporting Period, the Group recorded an increase in revenue and sales volume as compared to the corresponding period in 2020, but gross profit margin decreased due to the substantial increase in the prices of raw materials.

Financial Services

Apart from the production and sale of bentonite products in the PRC, the Group has also carried out business on financial services business, including money lending business and wealth management services in Hong Kong as well as generating financial guarantee fee income in the PRC.

During the Reporting Period, the business and operation environments of financial services remain challenging in Hong Kong as the pandemic has yet to be brought under control, and economic activities and confidence have not fully recovered. The performance of this business segment remained stable during the Reporting Period.

FINANCIAL REVIEW

Revenue

The overall revenue increased by 33.9% from approximately CNY38.9 million for the nine months ended 30 September 2020 to approximately CNY52.1 million for the Reporting Period. The increase in revenue was contributed by the revenue of approximately CNY5.8 million of financial services business in Hong Kong which was acquired in November 2020 and the increased revenue of bentonite mining business.

The revenue of bentonite mining increased by approximately 19.3% from approximately CNY38.1 million for the nine months ended 30 September 2020 to approximately CNY45.4 million for the Reporting Period. The increase in revenue was mainly contributed by the increase of sales volume of both drilling mud and pelletising clay. Thanks to the recovery of macroeconomics in the PRC and the lockdown of Hubei province were released compared to the corresponding period in 2020, the total sales volume recorded an increase by approximately 18.7% as compared with the corresponding period in 2020.

Gross Profit and Gross Margin

The overall gross profit increased by approximately 21.2% from approximately CNY20.5 million for the nine months ended 30 September 2020 to approximately CNY24.9 million for the Reporting Period, while the overall gross profit margin decreased from approximately 52.7% for the nine months ended 30 September 2020 to approximately 47.7% for the Reporting Period. The increase in the overall gross profit was mainly due to the increase of sales volume by approximately 18.7% and the contribution of financial services business in Hong Kong. The decrease in overall gross profit margin was mainly attributed to (i) the increase in unit cost of both drilling mud and pelletising clay and (ii) the lower gross profit margin of finance services business.

Other Income

Other income was approximately CNY1.4 million for the Reporting Period, while there was approximately CNY0.6 million of other income for the nine months ended 30 September 2020. The increase in other income was mainly attributed to the increase in interest income and other services income.

Selling and Distribution Expenses

The selling and distribution expenses saw no material fluctuation, with approximately CNY7.0 million for the nine months ended 30 September 2020 and for the Reporting Period.

Administrative and Other Expenses

The administrative and other expenses increased by approximately 22.6% from approximately CNY12.8 million for the nine months ended 30 September 2020 to approximately CNY15.7 million for the Reporting Period. The increase was mainly due to the combine effect of (i) decrease in professional fees during the Reporting Period and (ii) the inclusion of the operating expense of financial services business in Hong Kong which was acquired in November 2020.

Finance Costs

The finance costs increased by approximately CNY70,000 from approximately CNY334,000 for the nine months ended 30 September 2020 to approximately CNY404,000 for the Reporting Period. The increase was mainly due to the increase of lease interest expenses during the Reporting Period.

Income Tax Expense

The Group had an income tax expense of approximately CNY1.2 million for the Reporting Period as compared to approximately CNY0.8 million for the nine months ended 30 September 2020. The increase was mainly due to the combine effect of (i) increase of the profit before tax from Wuhu Feishang Non-metallic Material Company Limited, the indirect wholly-owned subsidiary of the Company and (ii) the increase of deferred tax income.

Profit for the Period and Total Comprehensive Income for the Period

Due to the combined effect of the aforesaid factors, the profit for the period and total comprehensive income attributable to the owners of the Company for the Reporting Period was approximately CNY2.0 million, an increase of approximately CNY1.8 million from the profit for the period and total comprehensive income of approximately CNY0.2 million for the nine months ended 30 September 2020.

Currency Exposure and Management

Since the majority of the Group's business activities are transacted in CNY, the Directors consider that the Group's risk in foreign exchange is insignificant.

Contingent Liabilities

As at 30 September 2021, the Group did not have any significant contingent liabilities.

OUTLOOK

The PRC has generally kept COVID-19 under control, and economic activities and confidence have rapidly recovered. The Chinese government has implemented strong fiscal and monetary stabilizing policies to further boost the PRC 's GDP growth by building a strong domestic market and supporting the domestic and international "dual circulation" strategy. Investment in fixed assets, real estate and infrastructure construction is expected to maintain solid growth, which will then support bentonite demand from downstream industries including the iron and steel and the energy sectors. Nevertheless, it would be difficult to gauge the longer term impact of such events as the situation is dynamically revolving. The Group has been proactive in closely monitoring the market conditions and taking appropriate measures to respond to the challenges. The Group will also continue to strengthen its cost control and resources management as well as to actively participate in project tenders, in order to maintain its competitiveness in the market.

Within the bentonite industry, uncertainties due to COVID-19 and international trade conflicts will cause market competition to further intensify and prices to fluctuate. Meanwhile, the new series of real estate market regulation and control policies and the PRC 's ambitious target to achieve carbon neutrality by 2060 are expected to adversely affect the iron and steel and the traditional energy industries in the long term, which will negatively impact the Group's business by imposing pressures on demand for pelletising clay and drilling mud. The Group strives to maintain the sales volume of its bentonite products by improving product quality and adhering to the "selling more with lower margin" strategy, and yet the Group may not be able to maintain the current level of gross profit margin in the coming months. The Group intends to continue expanding its customer base and market share by boosting product awareness of its bentonite products, refining its production technology and developing new products with a view to enhance the Group's overall competitiveness to cope with the risks and uncertainties of the business environment.

In view of the COVID-19 pandemic situation in Hong Kong, the Group expects that the business environment in financial services, including wealth management and money lending business, would be challenging in the year 2021. However, with the expectation of increasing awareness in wealth management in recent years, as well as the probable easing of travel restrictions between Hong Kong and the PRC, the Group remains cautiously optimistic in the medium and long-term development of this business segment in Hong Kong. Meanwhile, the Group will cautiously monitor market change and impose robust control measures to improve cost efficiency and risk management in order to provide a solid foundation for sustainable growth in the future.

DIVIDEND

In order to retain resources for the Group's business development, the Board does not recommend the payment of a dividend for the Reporting Period (nine months ended 30 September 2020: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2021, the interests and short positions of the Directors and chief executives 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 Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Rules 5.48 to 5.67 of the GEM Listing Rules (the "Required Standard of Dealings"), were set out below:

Name of Directors or chief executives	Long/Short position	Capacity	Number of Shares	Percentage of the issued shares	
				Notes	(%)
CHAN Man Fung	Long Position	Interests of a controlled corporation	125,000,000	1	15.71
	Long Position	Beneficial owner	33,410,000		4.20
			158,410,000		19.91
PUI Wai Lun	Long Position	Interests of a controlled corporation	125,000,000	1	15.71

Notes:

1. P.B. Asia Holdings Limited is owned as to 50% by Dr. CHAN Man Fung and 50% by Mr. PUI Wai Lun. By virtue of the SFO, Dr. CHAN Man Fung and Mr. PUI Wai Lun are deemed to be interested in these 125,000,000 Shares.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2021, so far as known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange 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 by the Company under Section 336 of the SFO:

Name of substantial shareholders	Long/short position	Capacity	Number of Shares	Percentage of the issued Shares (%)
Mr. Zhang Qiang	Long position	Beneficial owner	275,000,000	34.57
Ms. Wang Jie (<i>Note 1</i>)	Long position	Interest of spouse	275,000,000	34.57
P.B. Capital Advanced Fund SPC – P.B. Capital Advance Fund 1 Segregated Portfolio	Long position	Beneficial owner	111,762,000	14.05
P.B. Asia Holdings Limited	Long position	Beneficial owner	125,000,000	15.71

Notes:

1. Ms. Wang Jie is the spouse of Mr. Zhang Qiang. Therefore, Ms. Wang Jie is deemed to be interested in the Shares in which Mr. Zhang Qiang is interested.

Save as disclosed above, as at 30 September 2021, no other interests or short positions in the Shares or underlying Shares of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 12 December 2015 (the "Share Option Scheme"), under which the Board may, at its discretion, offer any Eligible Participant (as hereinafter defined) options to subscribe for the Shares subject to the terms and conditions stipulated therein. The Share Option Scheme is valid and effective for a period of 10 years from the Listing Date (the "Scheme Period"). The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of Eligible Participants to the Group by granting options to them as incentives or rewards. An Eligible Participant may include any (a) executive, employee, director, consultant, adviser and/or agent of any member of the Group; and (b) any other person who has contributed to the success of the listing of the Company on GEM, in each case, as determined by the Board.

As at 30 September 2021, no options had been granted, exercised or cancelled pursuant to the Share Option Scheme.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Throughout the Reporting Period, the Company has complied with the code provisions as set out in the CG Code.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "Code of Conduct"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct throughout the Reporting Period.

The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Required Standard of Dealings for senior management and any individuals who may have access to inside information in relation to the securities of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Reporting Period, none of the Directors and controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) had any interest in a business that competes or may compete with the business of the Group and any other conflicts of interests which such person had or may have with the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company although there are no restrictions against such rights under the laws of Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Shares by the Company or any of its subsidiaries throughout the Reporting Period.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no other significant investment, material acquisition and disposal during the Reporting Period.

PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors, there was sufficient public float of not less than 25% of the Company's issued Shares as required under the GEM Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective internal control and risk management systems. Such systems are in place and designed to manage risks and provide reasonable assurance against any material misstatement or loss in order to safeguard the interests of the shareholders and the assets of the Group against unauthorized use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

As at 30 September 2021 and the date of this report, save as disclosed otherwise, the business environment and regulatory environment in which the Group operates have not witnessed any material change, and internal operations and management and financial operations have been running smoothly, and thereby no other major risk factors need to be disclosed separately. In accordance with the revised Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 to the GEM Listing Rules, the Group continuously improves the risk management and internal control systems and updates a number of policies. The Board believes that these measures will strengthen the risk management and internal control systems of the Group.

OTHER INFORMATION

Prepayment to Suppliers

Reference was made to the Company's 2018, 2019 and 2020 Annual Reports, 2019 Interim Report and 2020 Interim Report, regarding the failure of the suppliers namely Litu Enterprise (HK) Limited, Trade Rosy Global Limited and Kai Muk Company to refund the trade deposits in the total amount of approximately CNY57.8 million to the Company. The Company has:

- i. instituted legal proceedings against Lituo Enterprise (HK) Limited on 18 October 2018 to recover outstanding deposits amounted to HK\$10,930,000 under High Court Action No. 2449 of 2018. Lituo Enterprise (HK) Limited filed its defence on 28 November 2018. Upon counsel's advice, the Company considered to have taken out summary proceedings against Lituo Enterprise (HK) Limited pursuant to Order 14 of the Rules of High Court, Cap 4A of the Laws of Hong Kong. However, after thoroughly considered the evidence of the case, counsel advised that it would be quite difficult to obtain summary Judgment against Lituo Enterprise (HK) Limited by way of summary proceedings and advised that the case should proceed normally to trial. The Company adopted such advice given by counsel and thereby decided not to proceed to summary proceedings. Accordingly, the Company's legal representatives have followed the normal civil procedures in proceedings. The parties to the proceedings are seeking usual order of directions for fixing timeline for the parties to make discovery of documents and exchange of statements of witnesses. The case is in progress;

- ii. instituted legal proceedings against, Lituo Enterprise (HK) Limited and another company ("the 2nd Defendant") which was the payee designated by Lituo Enterprise (HK) Limited under the underlying contract, to recover outstanding deposits amounted to HK\$35,000,000 under High Court Action No. 2450 of 2018. Lituo Enterprise (HK) Limited filed its defence on 28 November 2018. Whereas the 2nd Defendant, which is incorporated in British Virgin Islands (BVI), has never responded to the case and on 15 May 2020, the court granted final judgment against the 2nd Defendant upon the Company's application ("the Final Judgment dated 15 May 2020"). Thereafter, the Company has appointed BVI lawyers to execute and enforce the judgement by way of presenting a winding-up petition against the 2nd Defendant. An Appointment for the appointment of Mr. John David Ayres of FTI Consulting (BVI) Limited and Mr. Chow Wai Shing Daniel of FTI Consulting (BVI) Limited as joint liquidators of the 2nd Defendant was made by the Company to The High Court of Justice Virgin Islands under Claim No. BVIHC (COM) 0029 of 2021 and such application was heard on Monday 19 April 2021. Pursuant to an Order dated 19 April 2021 in the Eastern Caribbean Supreme Court in the High Court of Justice Virgin Islands under Claim No. BVIHC (COM) 0029 of 2021, it was ordered, inter alia, that Mr. John David Ayres of FTI Consulting (BVI) Limited and Mr. Chow Wai Shing Daniel of FTI Consulting (BVI) Limited be appointed as joint and several liquidators of the 2nd Defendant. As a result of the appointment, Mr. John David Ayres wrote to the Company on 15 June 2021 with the aim of (1) notifying the Company that the joint and several liquidators of the 2nd Defendant did not intend to call a meeting of creditors and (2) requesting the Company to submit a proof of debt form, which served to provide to the joint and several liquidators information in relation to the debt owed by the 2nd Defendant to the Company in relation to the Final Judgment dated 15 May 2020. The Company had duly completed the proof of debt form and returned the same to

FTI Consulting (BVI) Limited. On 17 June 2021, the joint and several liquidators issued a First Report dated 17th June 2021 to Creditors reporting inter alia the steps taken since their appointment ("the First Report"). According to the First Report, the joint and several liquidators restored the Company on 7 June 2021 and thereafter on the same day re-filed the liquidation notice to the Registrar of Corporate Affairs, which has subsequently been approved. In addition, the joint and several liquidators served on the 2nd Defendant notice of the liquidation at the 2nd Defendant's registered office as well as wrote to the director of the 2nd Defendant requesting them to complete a Statement of Affairs and Director's Questionnaire form and provide documents to them. It was reported from the joint and several liquidators that the director of the 2nd Defendant was not cooperative and refused to provide any details in relation to the affairs of the 2nd Defendant. The liquidation of the 2nd Defendant is still in progress;

- iii. issued demand letter to Trade Rosy Global Limited requesting the refund of deposits amounted HK\$14,500,000 on 1 November 2018. Trade Rosy Global Limited does not respond and has failed and/or refused to pay the deposit or any part thereof. Thereafter, there had been discussion by the Company with its legal adviser to explore the alternate legal action to institute winding up proceedings against Trade Rosy Global Limited in British Virgin Islands. However, based on the limited information about Trade Rosy Global Limited and its lack of response, the Board considered that the lengthy period of time and substantial legal costs and expenses to be incurred if it were to initiate legal proceedings against Trade Rosy Global Limited to recover the deposit. Accordingly, the Board considered that it would be in the best interest of the Company and its shareholders as a whole to refrain from taking any further action against Trade Rosy Global Limited for the time being until there is a better chance to seek meaningful remedial actions to recover the deposit from Trade Rosy Global Limited; and
- iv. instituted legal proceedings against Tong Chung Ming trading as Kai Muk Company to recover the remaining balance of a deposit amounted HK\$8,530,000 under High Court Action No. 1767 of 2018. The trial of the case was heard from 7 to 10 December 2020. By a Judgment dated 20 January 2021, it was adjudged that there be Judgment entered for the Company in the sum of HK\$8,530,000 with interest at HSBC Prime + 1% from 31st March 2018 to the date of Judgment, and at the Judgment Rate thereafter and there is a costs order Nisi that Tong Chung Ming trading as Kai Muk Company is to pay the Company's costs to be taxed if not agreed. The Company is now in the course of locating Tong Chung Ming in order to enforce the Judgment.

As disclosed in the 2018 Annual Report dated 7 March 2019, full provision for impairment for the possible unrecoverable prepayments to the Lituo Enterprise (HK) Limited, Trade Rosy Global Limited and Kai Muk Company had been made by the Company during the year ended 31 December 2018.

The Company will make further announcement(s) and/or update the above in its financial reports to inform its Shareholders and potential investors of any material development of the above court proceedings as and when appropriate.

As save as above, there is no material event undertaken by the Company or the Group subsequent to 30 September 2021 and up to the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Proposed (i) share consolidation; and (ii) rights issue

An extraordinary general meeting was held on 26 October 2021 in which the resolution to approve the proposed share consolidation of every ten (10) issued and unissued shares of HK\$0.01 each be consolidated into one (1) consolidated share of par value of HK\$0.1 each (the "Share Consolidation") and the resolution to approve the proposed right issue on the basis of one (1) rights share for every one consolidated share at the subscription price of HK\$0.35 per rights share (the "Right Issue") were passed by the shareholders of the Company.

The Share Consolidation became effective on 28 October 2021. Upon completion of the Share Consolidation, the authorised share capital of the Company was HK\$100,000,000 divided into 1,000,000,000 consolidated shares of HK\$0.1 each, of which 79,557,200 consolidated shares were in issue.

Details of the Share Consolidation and Rights Issue are set out in the announcements of the Company dated 16 July 2021, 6 August 2021, 27 August 2021, 1 September 2021, 13 September 2021 and 4 October 2021, circular dated 4 October 2021 and prospectus dated 9 November 2021.

AUDIT COMMITTEE

The Company has an audit committee (“Audit Committee”) which was established in accordance with the requirements of the GEM Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Audit Committee currently comprises three independent non-executive Directors, namely, Mr. YIP Chong Ho Eric (chairman of Audit Committee), Mr. CHOW Chi Hang Tony and Mr. Zhang Kun. The Audit Committee meets regularly with the Company’s senior management and the Company’s auditors to consider the Company’s financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The unaudited condensed consolidated financial statements of the Group for the Reporting Period have been reviewed by the Audit Committee, which was of the opinion that the preparation of such statements complied with applicable IFRSs and that adequate disclosure has been made in respect thereof.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises (i) four executive Directors, namely Dr. CHAN Man Fung (*Co-chairman*), Mr. PUI Wai Lun (*Co-chairman*), Mr. SU Chun Xiang and Mr. PANG Ho Yin (*Chief Executive Officer*); and (ii) three independent non-executive Directors, namely Mr. YIP Chong Ho Eric, Mr. CHOW Chi Hang Tony and Mr. ZHANG Kun.

By Order of the Board
P.B. Group Limited
CHAN Man Fung
Executive Director and Co-chairman

Hong Kong, 12 November 2021

* *The English name is for identification purpose only*