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SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

SUPPLEMENTAL ANNOUNCEMENT CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

Reference is made to the announcement (the “**Announcement**”) of South China Financial Holdings Limited (the “**Company**”) dated 7 April 2020 regarding the connected transaction in relation to the issue of Convertible Bonds under the Specific Mandate. Unless the context otherwise requires, all capitalised terms in this announcement shall have the same meanings as those defined in the Announcement.

1. LONGSTOP DATE

As disclosed in the Announcement, the Longstop Date is 30 June 2020 or such other date as the Company and the Subscriber shall agree in writing. As one of the conditions precedent to the Subscription involves the passing of all necessary Independent Shareholders’ approval of the Company regarding the issue of the Convertible Bonds, and authorising the Board to allot and issue the Conversion Shares upon exercise of conversion rights attaching to the Convertible Bonds in compliance with the applicable requirements under the Listing Rules, the fulfilment of such condition precedent involves, among others, at least 14-day notice to be given to the Independent Shareholders prior to the EGM in compliance with the articles of association of the Company and the Listing Rules. Having considered the circumstances and any unexpected measures to be taken to prevent the spread of COVID-19 which may affect the convening of the EGM, the Company and the Subscriber agree to set the Longstop Date or such other date as the Company and the Subscriber shall agree in writing after arm’s length negotiation. In addition, save as (a) the Company having discharged all of its obligations under the Subscription Agreement; and (b) the Board approving and authorising the execution and completion of the Subscription Agreement and the instrument constituting the Convertible Bonds, the creation and issue of the Convertible Bonds and the allotment and issue of the Convertible Shares upon the exercise of the conversion rights attaching to the Convertible Bonds, the Company and/or the

Subscriber have no control over the timing of the fulfilment of the other conditions precedent to the Subscription. As such, the Directors consider it prudent to allow a relatively longer period of time for the fulfilment of the conditions precedent to the Subscription, in particular the passing of the Independent Shareholders' approval. At the same time, it is the intention of the Company that the conditions precedent to the Subscription would be satisfied or would be procured to be satisfied as soon as practicable. The Directors are of the view that the Longstop Date is fair and reasonable to the Company and the Shareholders as a whole.

2. USE OF PROCEEDS

In addition, the Board wishes to supplement that, as at 31 December 2019, the Group had cash and bank balance of approximately HK\$89.5 million, of which:

- (a) approximately HK\$77.5 million are funds which are (i) committed in licensed subsidiaries of the Company (the “**Relevant Subsidiaries**”) for maintaining the required liquid capital under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong) (“**FRR**”) where the Group is required to maintain certain level of cash and bank balances which is also vital to all brokerage firms to honour their settlement obligations to the Stock Exchange and Hong Kong Futures Exchange; (ii) committed in subsidiaries of the Company in the PRC and the United Kingdom; and (iii) committed in a subsidiary of the Company with the bullion trading licence in the Chinese Gold and Silver Exchange; and
- (b) approximately HK\$12.0 million are cash available for daily operation.

Due to the recent outbreak of COVID-19 and the unfavourable global economic conditions, the financial performance of the Group has been affected subsequent to the year ended 31 December 2019 whereby the Group recorded a continuous decrease in excess liquid capital under the FRR and the free cash and bank balances. Should the Group not replenish the FRR liquid capital into the Relevant Subsidiaries, the Group's brokerage and margin lending business will be significantly dampened.

In order to restore and maintain the Group's FRR liquid capital to a more reasonable level, the Directors have considered disposing part of the investments in the portfolio to satisfy the liquidity needs and further developing and expanding the Group's brokerage and lending business. However, such disposal will result in the Group recording an immediate substantial loss in the trading investments which is not favourable and not in the interest of the Company and its Shareholders.

As disclosed in the section headed “Reasons for and benefits of the issue of Convertible Bonds and use of proceeds” in the Announcement, the Directors have considered various fund raising methods but none of them can be obtained in a short period of time and has the certainty on the outcome of fund-raising and low finance cost. The issue of Convertible Bonds is the only way for the Company to raise the funds at its desired amount within a short period of time with minimal cost. Although the allotment and issue of Conversion Shares will dilute the shareholding interests of the public Shareholders in the future, the Group’s gearing ratio will be decreased as well. The Group intends to apply the net proceeds from the Subscription for the following purposes: (i) approximately HK\$30.0 million for the development of brokerage and lending business; (ii) approximately HK\$6.0 million for the use of the Group’s marketing and promotion expenses; (iii) approximately HK\$7.0 million for the use of the Group’s repayment of mortgage loan principals; and (iv) approximately HK\$6.4 million for the use of other expenses, which include administrative expenses such as employees’ salaries.

Based on the above, the Directors consider that the Subscription is in the interest of the Company and the Shareholders as a whole.

By Order of the Board
South China Financial Holdings Limited
南華金融控股有限公司
Cheung Choi Ngor
Executive Director

Hong Kong, 17 April 2020

As at the date of this announcement, the Directors are (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor and Ms. Ng Yuk Mui Jessica as executive Directors; and (2) Hon. Raymond Arthur William Sears, Q.C., Mrs. Tse Wong Siu Yin Elizabeth and Mr. Tung Woon Cheung Eric as independent non-executive Directors.