
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this circular, 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 circular.

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



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 619)

(1) CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE; AND (2) NOTICE OF EGM

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



Capitalised terms used in this circular shall have the same meanings as defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 6 to 25 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 26 and 27 of this circular. A letter from the Independent Financial Adviser containing its recommendation and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 59 of this circular.

A notice convening the EGM to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 2 June 2020 at 10:00 a.m. or any adjournment thereof is set out on pages EGM-1 to EGM-3 of 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 and deposit it with Union Registrars Limited, the share registrar of the Company in Hong Kong, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM:

- (1) Compulsory temperature screening/checks
- (2) Wearing of surgical face mask
- (3) No provision of refreshments or drinks or souvenir

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. The Company encourages attendees to wear surgical face masks and reminds Shareholders that they may appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM as an alternative to attending the EGM in person.

15 May 2020

CONTENTS

| | <i>Page</i> |
|--|--------------|
| DEFINITIONS | 1 |
| LETTER FROM THE BOARD | 6 |
| LETTER FROM THE INDEPENDENT BOARD COMMITTEE | 26 |
| LETTER FROM THE INDEPENDENT FINANCIAL ADVISER | 28 |
| APPENDIX — GENERAL INFORMATION | 60 |
| NOTICE OF EGM | EGM-1 |

DEFINITIONS

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

| | |
|---------------------------------|--|
| “acting in concert” | has the meaning ascribed to it by the Takeovers Code |
| “Approved Professional Adviser” | an independent firm of merchant bank or audit firm of international repute in the opinion of the Company appointed in accordance with the provisions of the instrument constituting the Convertible Bonds |
| “associate(s)” | has the meaning ascribed thereto in the Listing Rules |
| “Board” | the board of Directors |
| “Bondholder(s)” | a person in whose name is registered in the register of Bondholders, and “ holder(s) ” in relation to a Convertible Bond has a corresponding meaning |
| “Business Day” | a day (other than a Saturday, Sunday or public holiday and days on which a typical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong) on which licensed banks in Hong Kong are generally open for ordinary banking business throughout their normal business hours |
| “BVI” | the British Virgin Islands |
| “Company” | South China Financial Holdings Limited, a company incorporated in Hong Kong whose Shares are listed on the Main Board of the Stock Exchange |
| “Completion” | completion of the Subscription and shall take place on the Completion Date |
| “Completion Date” | the fifth (5th) Business Day following the date on which the conditions precedent set out in the Subscription Agreement are fulfilled (or such other date as the Company and the Subscriber may agree in writing) |
| “connected person(s)” | has the meaning ascribed thereto in the Listing Rules |
| “Conversion Price” | HK\$0.22 per Conversion Share (subject to adjustments pursuant to the terms and conditions of the Convertible Bonds) |

DEFINITIONS

| | |
|-------------------------------|--|
| “Conversion Share(s)” | new Share(s) to be allotted and issued by the Company upon the exercise of the conversion rights attached to the Convertible Bonds by the holder(s) of the Convertible Bonds pursuant to the terms and conditions of the instrument constituting the Convertible Bonds |
| “Convertible Bonds” | the HK\$50,000,000 convertible bonds due on the Maturity Date to be issued by the Company to the Subscriber |
| “Director(s)” | director(s) of the Company |
| “EGM” | an extraordinary general meeting of the Company convened and to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 2 June 2020 at 10:00 a.m. to consider and, if thought fit, approve the Subscription Agreement and all transactions contemplated thereunder, including (among other matters) the allotment and issue of Convertible Bonds and the Conversion Shares falling to be issued upon conversion of the Convertible Bonds under the Specific Mandate (or any adjournment thereof) |
| “Executive” | the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegate(s) |
| “Fung Shing” | Fung Shing Group Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Ng as at the Latest Practicable Date |
| “Group” | the Company and its subsidiaries |
| “HK\$” or “HK dollars” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | an independent board committee of the Board established by the Board, comprising all the independent non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and as to voting at the EGM |

DEFINITIONS

| | |
|---------------------------------|---|
| “Independent Financial Adviser” | Opus Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the Subscription Agreement and all transactions contemplated thereunder |
| “Independent Shareholders” | Shareholders, other than the Subscriber and its associates who are required to abstain from voting at the EGM pursuant to the Listing Rules |
| “Issue Date” | the date of first issue of the Convertible Bonds |
| “Last Trading Day” | 7 April 2020, being the last trading day for the Shares before the entering into of the Subscription Agreement |
| “Latest Practicable Date” | 11 May 2020, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular |
| “Listing Committee” | the listing committee of the Stock Exchange for considering applications for listing and the granting of listing |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Longstop Date” | 30 June 2020 or such other date as the Company and the Subscriber shall agree in writing |
| “Maturity Date” | the date falling on the third (3rd) anniversary of the Issue Date or, if that is not a Business Day, the first Business Day thereafter |
| “Mr. Ng” | Mr. Ng Hung Sang, an executive Director and a substantial Shareholder |
| “Mr. Paul Ng” | Mr. Ng Yuk Yeung Paul, son of Mr. Ng |
| “Ms. Jessica Ng” | Ms. Ng Yuk Mui Jessica, daughter of Mr. Ng |
| “Parkfield” | Parkfield Holdings Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Ng as at the Latest Practicable Date |
| “parties acting in concert” | has the meaning ascribed thereto in the Takeovers Code |

DEFINITIONS

| | |
|------------------------------|---|
| “PRC” | the People’s Republic of China which, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| “Public Float Requirement” | the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Shares which are listed on the Stock Exchange shall be held by the public for the purpose of the Listing Rules |
| “Rights Issue” | the proposed rights issue of 451,915,605 Shares by way of rights on the basis of three rights shares for every two Shares, which was announced by the Company on 3 July 2019 and has lapsed on 23 August 2019 |
| “Ronastar” | Ronastar Investments Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Ng as at the Latest Practicable Date |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | ordinary share(s) of the Company |
| “Shareholder(s)” | holder(s) of the issued Share(s) |
| “Specific Mandate” | the specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to allot and issue the Conversion Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscriber” | Total Grace Investments Limited, a company incorporated in the BVI and wholly and beneficially owned by Mr. Ng, being the subscriber under the Subscription Agreement |
| “Subscription” | the subscription of the Convertible Bonds pursuant to the terms of the Subscription Agreement |
| “Subscription Agreement” | the conditional subscription agreement dated 7 April 2020 and entered into among the Company and the Subscriber in relation to the Subscription |
| “substantial Shareholder(s)” | has the meaning ascribed to it in the Listing Rules |
| “Takeovers Code” | the Hong Kong Code on Takeovers and Mergers |

DEFINITIONS

| | |
|-------------|---|
| “Uni-Spark” | Uni-Spark Investments Limited, a company incorporated in Hong Kong with limited liability and wholly and beneficially owned by Mr. Ng as at the Latest Practicable Date |
| “US\$” | United States dollars, the lawful currency of the United States of America |
| “%” | per cent. |



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 619)

Executive Directors:

Mr. Ng Hung Sang (*Chairman*)

Ms. Cheung Choi Ngor (*Vice Chairman*)

Ms. Ng Yuk Mui Jessica

(Executive Vice Chairman and Chief Executive Officer)

Registered office:

28th Floor, Bank of China Tower

1 Garden Road, Central

Hong Kong

Independent non-executive Directors:

Hon. Raymond Arthur William Sears, Q.C.

Mrs. Tse Wong Siu Yin Elizabeth

Mr. Tung Woon Cheung Eric

15 May 2020

To the Shareholders

Dear Sirs,

**(1) CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE; AND
(2) NOTICE OF EGM**

INTRODUCTION

Reference is made to the announcements of the Company dated 7 April 2020 and 17 April 2020 regarding the Subscription.

The purpose of this circular is to provide you with, among other things, (i) further information regarding the Subscription; (ii) the letter of recommendation from the Independent Board Committee to approve the Subscription Agreement and all transactions contemplated thereunder; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and Independent Shareholders in relation to the terms of the Subscription Agreement and all transactions contemplated thereunder; and (iv) the notice of EGM.

LETTER FROM THE BOARD

THE SUBSCRIPTION AGREEMENT

A summary of the principal terms of the Subscription Agreement is set out below:

Date: 7 April 2020 (after trading hours)

| | | |
|----------|-----------------|---------------------------------|
| Parties: | Issuer: | The Company |
| | The Subscriber: | Total Grace Investments Limited |

The Convertible Bonds will be fully subscribed by the Subscriber.

The Subscriber is an investment holding company. As at the Latest Practicable Date, the Subscriber is wholly and beneficially owned by Mr. Ng, who is a substantial Shareholder and an executive Director. Accordingly, the Subscriber is a connected person under the Listing Rules.

Subject matter

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$50,000,000 on the Completion Date.

Conversion Price

The Conversion Price of HK\$0.22 per Conversion Share: (a) is equivalent to the closing price of HK\$0.22 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; (b) represents a premium of approximately 0.92% over the average closing price of approximately HK\$0.218 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to and including the Last Trading Date; (c) represents a discount of approximately 3.08% to the average closing price of approximately HK\$0.227 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day; and (d) represents a premium of approximately 4.76% over the closing price of HK\$0.21 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Conversion Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the (i) prevailing market prices of the Shares as shown above; (ii) one-month Share price before the date of Subscription; (iii) the financial results of the Company for the year ended 31 December 2019; and (iv) the prevailing market and global conditions. The Directors (including the independent non-executive Directors after having considered of the recommendation in form of a letter from the Independent Financial Adviser, but excluding Mr. Ng and Ms. Jessica Ng who have material interest in all transactions as contemplated under the Subscription Agreement) consider that the Conversion Price and the terms and conditions of the Subscription Agreement are fair and reasonable and are based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Conversion Shares

The Convertible Bonds carry the conversion rights to convert into the Conversion Shares at the Conversion Price of HK\$0.22 per Conversion Share (subject to adjustment). As at the Latest Practicable Date, the Company has a total of 301,277,070 Shares in issue. Assuming (i) the conversion rights under the Convertible Bonds are exercised in full at the Conversion Price; and (ii) there is no other change to the total number of issued Shares from the Latest Practicable Date to the date of exercise in full of the conversion rights under the Convertible Bonds, a total of 227,272,727 new Shares, being the Conversion Shares, may be allotted and issued to the Subscriber (subject to certain restrictions), representing approximately 75.44% of the total number of issued Shares as at the Latest Practicable Date and approximately 43.00% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares. Further details of the shareholding of the Company upon exercise of the conversion rights under the Convertible Bonds by the Subscriber are set out in the paragraph headed “Effect on the shareholding structure of the Company” below.

The Conversion Shares, when allotted and issued, will be credited as fully paid, free from any encumbrance and will rank *pari passu* in all respects with the Shares in issue on the conversion date. The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM. An application has been made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon conversion of the Convertible Bonds.

Conditions precedent

The Subscription is conditional upon the following conditions being fulfilled (or waived, if applicable) at or before 5:00 p.m. on the Longstop Date (Hong Kong time):

- (1) the Listing Committee having granted listing of and permission to deal in the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds;
- (2) the Company having performed all of its obligations under the Subscription Agreement to be performed on or before Completion and none of the warranties set out in the Subscription Agreement having been breached by the Company in any material respect (or, if capable of being remedied, has been remedied), or is misleading or untrue in any material respect;
- (3) 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 Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds; and
- (4) the passing of all necessary Independent Shareholders’ approval of the Company (as required), among other matters, regarding the issue of the Convertible Bonds, 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.

LETTER FROM THE BOARD

The Subscriber may, at its discretion and upon such terms as it thinks fit, waive compliance with the condition (2) set out above. None of the other conditions may be waived by either party. In the event that any of the above conditions is not fulfilled (or waived, if applicable) on or before the Longstop Date, the Subscription will not proceed.

Longstop Date

As mentioned above in the condition precedent (4), 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.

Completion

Completion will take place on the Completion Date after the fulfilment or waiver (as the case may be) of the conditions set out in the Subscription Agreement.

On the Completion Date, the Convertible Bonds will be issued by the Company to the Subscriber at full face value, that is, HK\$50,000,000.

Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds were arrived at after arm's length negotiations between the Company and the Subscriber and are summarised as follows:

| | |
|-------------------|---|
| Issuer: | The Company |
| Principal amount: | HK\$50,000,000 |
| Issue price: | 100% of the principal amount of the Convertible Bonds |
| Interest rate: | Nil |

LETTER FROM THE BOARD

Maturity Date: The date falling on the third (3rd) anniversary of the Issue Date or, if that is not a Business Day, the first Business Day thereafter.

Status: The Convertible Bonds constitute direct, unsecured, unsubordinated and unconditional obligations of the Company and rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Convertible Bonds shall, subject to such exceptions as may be provided by applicable laws, rank at least *pari passu* with all its other present and future direct, unsecured, unsubordinated and unconditional obligations.

Conversion right: Subject as provided in the terms of the Convertible Bonds, the Convertible Bonds are convertible in whole or in part into new Shares any time during the period commencing from the Issue Date, at the Conversion Price, subject to adjustment in accordance with the terms of the Convertible Bonds. Any conversion shall be made in amounts of not less than a whole multiple of HK\$10,000,000 and no fraction of a Share shall be issued on conversion.

If the issue of Conversion Shares following the exercise by a Bondholder of the conversion rights attaching to the Convertible Bonds held by such Bondholder would result in:

- (i) such Bondholder and parties acting in concert with it (within the meaning of the Takeovers Code), taken together, directly or indirectly exceeding 2% creeper rule under Rule 26.1 of the Takeovers Code within any 12-month period from a holding of voting rights of between 30% and 50% and a mandatory general offer obligation will be triggered under the Takeovers Code, unless (a) such Bondholder and parties acting in concert with it comply with the Takeovers Code and make a general offer to acquire for all the Shares not already owned by them; or (b) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the independent shareholders and is granted by the Executive before the date of completion of the conversion; or

LETTER FROM THE BOARD

- (ii) a mandatory general offer obligation being triggered under the Takeovers Code in respect of such Bondholder and the parties acting in concert with it (within the meaning of the Takeovers Code), unless either (a) such Bondholder and parties in concert with it comply with the Takeovers Code and make a general offer to acquire for all the Shares not already owned by them; or (b) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the independent shareholders and is granted by the Executive before the date of completion of the conversion; or
- (iii) the Company not meeting the Public Float Requirement immediately after the conversion,

then the number of Conversion Shares to be issued pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not result in a breach of the Public Float Requirement or mandatory general offer being triggered under the Takeovers Code; and the balance of the conversion rights attaching to the Convertible Bonds which the Bondholder sought to convert shall be suspended until such time when the Company is able to issue additional Shares in satisfaction of the exercise of the said balance of conversion rights attaching to the Convertible Bonds and at the same time comply with the Public Float Requirement or without triggering a mandatory general offer under the Takeovers Code or the general offer is made by such Bondholder or Shareholder and parties acting in concert with it respectively or a whitewash waiver is approved and granted (as the case may be) as set out above.

Conversion period:

The holder(s) of the Convertible Bonds shall have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares for the period commencing from the Issue Date up to 4:00 p.m. on the Maturity Date (Hong Kong time).

LETTER FROM THE BOARD

| | |
|--------------------------------|---|
| Cash settlement option clause: | <p>In the event that the issue of Shares upon exercise of the conversion rights under the Convertible Bonds would result in breach of the Company's obligations of the Public Float Requirement under the Listing Rules, the Company will be allowed, to pay to the relevant Bondholder an amount of cash in HK dollars equal to the cash settlement amount (the "Cash Settlement Amount") in order to satisfy such conversion right, in full or in part as determined at the sole discretion of the Company (and if settled in part by cash, the balance shall be satisfied by the delivery of Shares) (the "Cash Settlement Option") such that the Public Float Requirement would be met upon exercise of the conversion rights under the Convertible Bonds. The Cash Settlement Amount consists of the product of (i) the number of Shares otherwise deliverable upon exercise of the conversion right in respect of the Convertible Bond(s) to which the conversion notice applies, and in respect of which the Company has elected the Cash Settlement Option; and (ii) the average of the closing price of the Shares for each day during the five (5) consecutive trading days immediately after the date of the notice given by the Company to the relevant Bondholder(s) informing its intention to exercise the Cash Settlement Option.</p> |
| Conversion Price: | <p>The Conversion Price is initially HK\$0.22 per Conversion Share, subject to adjustment provisions as summarised below.</p> |
| Adjustments events: | <p>The initial Conversion Price will be subject to adjustment arising from any of the following events which would result in alteration in the capital structure of the Company becoming effective prior to the Conversion Date:</p> <ul style="list-style-type: none">(i) <i>capitalisation of profits or reserves</i> — if and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account) including Shares paid up out of distributable profits or reserves and/or share premium account issued;(ii) <i>rights issue or other offer of securities to holders of Shares (including any securities convertible into Shares or warrants or options to subscribe for any Shares)</i> — if and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, of options, warrants or other rights to subscribe for or purchase any Shares; or |

LETTER FROM THE BOARD

- (iii) *consolidation or sub-division of the Shares or reduction of the share capital of the Company or otherwise howsoever* — if and whenever there shall be an alteration of the share capital of the Company as a result of consolidation, sub-division or reclassification,

except where any such event is specifically exempted under the terms and conditions of the Convertible Bonds, including but not limited to any issue or grant of Shares, options or other securities of the Group wholly or partly convertible into, or rights to acquire, Shares to the Directors or employees of the Group or their personal representatives pursuant to an employee share scheme of the Group.

In any such alteration in the capital structure of the Company, instead of having a fixed adjustment methodology for compulsory adjustment to the Conversion Price, the Company shall prior to the date of conversion of the Convertible Bonds instruct an Approved Professional Adviser to consider whether any adjustment should be made to the Conversion Price in order to fairly and appropriately reflect the relative interests of the Company and the Bondholder(s). The Directors shall make an adjustment to the Conversion Price in such manner as an Approved Professional Adviser certifies to be, in its opinion, appropriate.

Further provisions in relation to adjustment to Conversion Price:

- (1) Where more than one event gives or may give rise to an adjustment occurs within such a short period of time that the Approved Professional Adviser considers in good faith that the operation of the above provisions would need to be subject to some modifications in order to give the intended commercial result, such modifications shall be made to the operation of the above provisions as may be advised by the Approved Professional Adviser, acting as an expert, to be in its opinion appropriate in order to give such intended result.
- (2) No adjustment will be made (i) where Shares are allotted or issued pursuant to any exercise of the conversion rights or (ii) upon any issue or grant of Shares, options or other securities of the Group wholly or partly convertible into, or rights to acquire, Shares to directors or employees of the Group or their personal representatives pursuant to an employee share scheme of the Group.

LETTER FROM THE BOARD

- (3) No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares.

Conversion Shares to be issued under the Convertible Bonds:

The number of Shares to be issued upon conversion of the Convertible Bonds shall be determined by dividing the principal amount of the relevant Convertible Bonds to be converted by the Conversion Price in effect on the relevant conversion date.

Upon exercise of the conversion rights under the Convertible Bonds in full at the initial Conversion Price of HK\$0.22 per Conversion Share and assuming there is no change to the total number of issued Shares from the Latest Practicable Date and the date of exercise in full of the conversion rights under the Convertible Bonds, a total of 227,272,727 Conversion Shares will be issued, representing:

- (i) approximately 75.44% of the total number of issued Shares as at the Latest Practicable Date; and
- (ii) approximately 43.00% of the total number of issued Shares as enlarged by the issue of Conversion Shares.

Redemption upon maturity:

Any Convertible Bond which remains outstanding by 4:00 p.m. (Hong Kong time) on the Maturity Date shall be redeemed by the Company at a redemption amount equal to the principal amount of the outstanding Convertible Bonds together with interest accrued thereon (if any).

Redemption by the Company:

The Company may at any time during the period commencing from the Issue Date and expiring on the Maturity Date redeem the whole or part of the outstanding Convertible Bonds by giving the Bondholder(s) not less than seven (7) Business Days' prior written notice at the redemption amount which is 100% of the principal amount of the outstanding Convertible Bonds to be redeemed.

Redemption by the Bondholder(s):

Bondholder(s) will have the unconditional right at any time during the period commencing from the Issue Date and expiring on the Maturity Date to require the Company to redeem the whole or part of the outstanding Convertible Bonds by giving the Company not less than thirty (30) days' (or such other period to be mutually agreed between the Bondholder and the Company in writing) prior written notice at the redemption amount which is 100% of the principal amount of the outstanding Convertible Bonds to be redeemed.

LETTER FROM THE BOARD

| | |
|------------------------------------|--|
| Redemption upon events of default: | Upon the occurrence of an event of default as described below and at any time thereafter, the Bondholder(s) may, unless such event of default has been waived in writing by it, by notice in writing, require the Company to redeem the whole (but not part) of the outstanding principal amount of the Convertible Bonds at the redemption amount provided in the instrument constituting the Convertible Bonds whereupon such sum shall become due and payable in the manner provided in the instrument constituting the Convertible Bonds on the tenth (10th) Business Day after the date of such notice. |
| Voting rights: | The Convertible Bonds shall not confer on the Bondholder(s) the right to vote at any general meetings of the Company. |
| Listing: | No application has been or will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. |
| Transferability: | <p>Subject to the satisfaction of warranties stipulated in the instrument constituting the Convertible Bonds (or, if capable of being remedied, has been remedied) and subject to the Company's prior written consent, the Convertible Bonds may be transferred to any person in whole multiples of HK\$10,000,000 (or such lesser amount as may represent the entire principal amount thereof). A transfer shall be effected by delivery of a certificate issued in the name of the Bondholder issued in respect of that Convertible Bond, with an instrument of transfer duly completed and signed by both the transferor and the transferee. No transfer of title to any Convertible Bond will be effective unless and until entered on the register of Bondholders.</p> <p>Subject to the Listing Rules, the Convertible Bonds may not be transferred to connected persons of the Company.</p> |

LETTER FROM THE BOARD

Events of default: If, among others, any one of the following events occurs, the holder(s) of the Convertible Bonds may give notice to the Company that the Convertible Bonds are immediately due and payable at their principal amount:

- (1) **Other default:** a default is made by the Company in the performance or observance of any covenant, condition or provision contained in the instrument constituting the Convertible Bonds or in the Convertible Bonds and on its part to be performed or observed (other than the covenant to pay the principal and premium (if any) in respect of any of the Convertible Bonds) and such default continues for the period of fourteen (14) days immediately following the service by any holder of the Convertible Bonds on the Company of notice specifying brief details of such default and requiring such default to be remedied; or
- (2) **Breach of Subscription Agreement:** a material breach of any of the terms of the Subscription Agreement, including a breach of any warranty therein which is not discovered until after the issue and delivery of the Convertible Bonds; or
- (3) **Dissolution of the Company and Disposals:** a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all or substantially all of its assets, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by an ordinary resolution of holders of the Convertible Bonds; or
- (4) **Encumbrances:** an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the Company; or
- (5) **Distress etc.:** a distress, execution or seizure before judgment is levied or enforced upon or sued out against a material part of the assets or undertaking or property of the Company and is not discharged within seven (7) days thereof; or

LETTER FROM THE BOARD

- (6) **Trading suspension and delisting:** if trading of the Shares are suspended by the Stock Exchange for more than thirty (30) consecutive trading days other than as a result of a suspension for clearance of an announcement or circular pursuant to Chapters 14 and/or 14A of the Listing Rules or the Takeovers Code (to the extent relevant to a suspension in the case of a takeover) or listing of the Shares on the Stock Exchange are being revoked or withdrawn; or
- (7) **Insufficient shares:** save and except where otherwise provided in the instrument constituting the Convertible Bonds, if there is not a sufficient number of Shares available for the fulfilment of the obligations regarding the conversion of the Convertible Bonds.

Undertakings by the Company:

The Company has covenanted to the Bondholder, among other things, that so long as any Convertible Bonds remains outstanding:

- (i) it will notify the Bondholder(s) in writing immediately upon becoming aware of the occurrence of any event of default;
- (ii) it will send to the Bondholder(s) as soon as reasonably practicable and in any event within five (5) days after being so requested in writing by any Bondholder(s) a certificate of the Company signed by any two of its directors on behalf of the Company setting out, based on the register of Bondholders maintained by or on behalf of the Company, the total number of Convertible Bonds which, at the date of such certificate, were held by or on behalf of the Company or its subsidiaries and which had not been cancelled;
- (iii) it will comply with and perform and observe all the provisions of the instrument constituting the Convertible Bonds which are expressed to be binding on it;
- (iv) upon the exercise of any conversion rights attached to the Convertible Bonds pursuant to the conditions set out in the instrument constituting the Convertible Bonds, it will allot the number of Shares in respect of which conversion rights are exercised subject to and in accordance with such conditions;

LETTER FROM THE BOARD

- (v) it will ensure that all Shares allotted pursuant to an exercise of the conversion rights attached to the Convertible Bonds shall rank *pari passu* in all respects with the fully paid Shares in issue on the relevant registration date and shall accordingly entitle the holders to participate in full in all dividends or other distributions paid or made on the Shares after the relevant registration date other than any dividend or other distribution previously declared, or recommended or resolved to be paid or made if the record date therefor falls on or before the relevant registration date and notice of the amount and record date for which shall have been given to the Stock Exchange, and the Bondholder(s) prior to the relevant registration date and, for this purpose, the notice to the Bondholder(s) may take the form of sending a copy of the relevant announcement published on the Stock Exchange to them; and
- (vi) it will at all times use its reasonable endeavours to ensure that the minimum public shareholding requirement of the Listing Rules is complied with.

Reasons for and benefits of the issue of the Convertible Bonds and use of proceeds

The Company is an investment holding company. The principal activities and business of the Group consist of securities, commodities, bullion and forex broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services, asset and wealth management, property investment, media publications and financial public relation services, sale of jewellery products and investment holding.

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.

LETTER FROM THE BOARD

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.

The Directors (excluding Mr. Ng and Ms. Jessica Ng who have material interest in all transactions as contemplated under the Subscription Agreement, but including the members of the Independent Board Committee after having considered the recommendation in the letter from the Independent Financial Adviser) have considered various fund raising methods (including debt financing, rights issue and open offer) under the prevailing market conditions 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 Directors considered that 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. In respect of debt financing, the Company was unable to obtain any debt financing at terms acceptable to the Company due to the fact that other than the collaterals for the existing banking facilities, the Group does not have any other significant asset as collaterals to obtain further bank loans. Also, debt financing will create immediate additional interest burden to the Group. In respect of rights issue or open offer, the timetable for the Subscription is expected to be shorter since both the documentation and procedural matters for the Subscription are relatively simple and direct, and the fund-raising outcome of the Subscription is more certain than the rights issue or open offer in view of the Rights Issue, which was not approved by the then independent Shareholders at the extraordinary general meeting of the Company on 23 August 2019. Having considered the Rights Issue has lapsed on 23 August 2019 and the current market conditions, the Directors (excluding Mr. Ng and Ms. Jessica Ng who have material interest in all transactions as contemplated under the Subscription Agreement, but including the members of the Independent Board Committee after having considered the recommendation in the letter from the Independent Financial Adviser) consider that fund raising through rights issue or open offer would not be a good option for the Company. The issue of the Convertible Bonds represents an opportunity to raise funds for the Company. In particular, (1) the Convertible Bonds are not interest bearing; (2) a desired amount could be raised immediately upon completion of the Subscription; (3) there is no immediate dilution effect on the shareholding interests of the existing public Shareholders immediately upon completion of the Subscription; and (4) the Group's gearing ratio could be decreased when the Convertible Bonds are fully converted in the future immediately upon the allotment and issue of Conversion Shares.

LETTER FROM THE BOARD

The gross proceeds from the Subscription amount to HK\$50.0 million before expenses. The estimated expenses in relation to the Subscription, including the financial, legal, and other professional advisory fees, printing and translation expenses will be borne by the Company. The estimated net proceeds of the Subscription amount to approximately HK\$49.4 million. The Company intends to apply the abovementioned net proceeds from the Subscription for the following purposes: (i) approximately HK\$30.0 million for the increase in the Group's FRR liquid capital and subsequent use for the development of brokerage and lending business; and (ii) approximately HK\$19.4 million for the use of the Group's general working capital by the end of 2020, which includes (a) approximately HK\$6.0 million for the use of the Group's marketing and promotion expenses; (b) approximately HK\$7.0 million for the use of the Group's repayment of mortgage loan principals; and (c) approximately HK\$6.4 million for the use of other expenses, which include administrative expenses such as employees' salaries.

The Directors (excluding Mr. Ng and Ms. Jessica Ng who have material interest in all transactions as contemplated under the Subscription Agreement, but including the members of the Independent Board Committee after having considered that the recommendation in the letter from the Independent Financial Adviser) consider the cash settlement option clause in the Subscription Agreement to be fair and reasonable and in the interests of the Company and the Shareholders as a whole because (i) the Company can only exercise the Cash Settlement Option when there would be a breach of the Public Float Requirement under the Listing Rules as a result of the exercise of the conversion rights attaching to the Convertible Bonds and issue of the Conversion Shares; (ii) it is reasonable to compensate the Bondholder(s) only when the exercise of the conversion rights attaching to the Convertible Bonds would result in the Company breaching its obligation under the Listing Rules; and (iii) in the event that the Cash Settlement Option needs to be exercised by the Company, the Board will make an assessment immediately prior to the Company serving the Cash Settlement Option notice to the Bondholder(s), and the Directors who have material interest in such Cash Settlement Option at the material time will abstain from voting at the board meeting.

Despite the Directors are aware of the disadvantage of the potential dilution effect on the shareholding interests of the existing public Shareholders in the Company upon the full conversion of the Convertible Bonds, having considered the (1) funding needs of the Company; (2) possibilities of other various fund raising methods under the prevailing market condition, whereby none of those can be obtained in a short period of time, with a certainty on the outcome and low finance cost as mentioned above; and (3) the advantages of the Subscription as compared to other fund raising methods as mentioned above, the Directors (excluding Mr. Ng and Ms. Jessica Ng who have material interest in all transactions as contemplated under the Subscription Agreement, but including the members of the Independent Board Committee after having considered the recommendation in the letter from the Independent Financial Adviser) consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscriber, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Company (a) did not have any plan for further fund raising activities; and/or (b) was not contemplating any material transactions for the forthcoming 12 months. Save as entering into the Subscription Agreement, the Company has not entered, or contemplated to enter, into any other arrangements agreements or understanding (whether formal or informal and whether express or implied) with the Subscriber and Mr. Ng

LETTER FROM THE BOARD

(and parties acting in concert with him) as at the Latest Practicable Date. In any event, if the Company needs to raise further funding when needed and/or contemplates any material transactions, the Company will make further announcement and comply with the relevant Listing Rules as and when appropriate.

Effect on the shareholding structure of the Company

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon conversion of the Convertible Bonds not resulting the Subscriber and the parties acting concert with it exceeding the 2% creeper rule under Rule 26.1 of the Takeovers Code; and (iii) upon full conversion of the Convertible Bonds (on the assumptions that the Convertible Bonds are converted at the initial Conversion Price being HK\$0.22 and there is no other change in the number of issued Shares from the Latest Practicable Date up to the date of full conversion of the Convertible Bonds) is as follows:

| | As at the Latest Practicable Date | | Upon conversion of the Convertible Bonds not resulting the Subscriber and the parties acting concert with it exceeding the 2% creeper rule under Rule 26.1 of the Takeovers Code | | Upon full conversion of the Convertible Bonds (Note 1) | |
|--|-----------------------------------|---------------|--|---------------|--|---------------|
| | Approximate | | Approximate | | Approximate | |
| | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| | | (Note 2) | | (Note 2) | | (Note 2) |
| Subscriber and parties acting in concert | | | | | | |
| Mr. Ng (Notes 3 and 4) | 11,133,264 | 3.70 | 11,133,264 | 3.58 | 11,133,264 | 2.11 |
| Uni-Spark (Notes 3 and 4) | 7,178,761 | 2.38 | 7,178,761 | 2.31 | 7,178,761 | 1.36 |
| Fung Shing (Note 3) | 23,526,030 | 7.81 | 23,526,030 | 7.56 | 23,526,030 | 4.45 |
| Parkfield (Note 3) | 44,623,680 | 14.81 | 44,623,680 | 14.33 | 44,623,680 | 8.44 |
| Ronastar (Note 3) | 1,999,872 | 0.66 | 1,999,872 | 0.64 | 1,999,872 | 0.38 |
| The Subscriber (Note 3) | — | — | 10,100,000 | 3.24 | 227,272,727 | 43.00 |
| Mr. Paul Ng (Note 5) | 11,700,000 | 3.88 | 11,700,000 | 3.76 | 11,700,000 | 2.21 |
| Ms. Cheung Choi Ngor (Notes 4 and 6) | 12,300,311 | 4.08 | 12,300,311 | 3.95 | 12,300,311 | 2.33 |
| Mr. Richard Howard Gorges (Note 6) | 5,000,000 | 1.66 | 5,000,000 | 1.61 | 5,000,000 | 0.95 |
| Sub-total | 117,461,918 | 38.98 | 127,561,918 | 40.98 | 344,734,645 | 65.23 |
| Hon. Raymond Arthur William Sears, Q.C. (Note 4) | 53,000 | 0.02 | 53,000 | 0.02 | 53,000 | 0.01 |
| Other public Shareholders | 183,762,152 | 61.00 | 183,762,152 | 59.00 | 183,762,152 | 34.76 |
| Total: | 301,277,070 | 100.00 | 311,377,070 | 100.00 | 528,549,797 | 100.00 |

LETTER FROM THE BOARD

Notes:

1. This column demonstrates the scenario where (i) the Subscriber and parties acting in concert with it, taken together, will directly or indirectly, make a mandatory offer obligation under Rule 26 of the Takeovers Code; or (ii) a whitewash waiver to waive the requirement for the Subscriber and parties acting in concert with it to make the mandatory general offer will be approved by the independent shareholders and will be granted by the Executive upon the conversion.
2. Certain percentages above have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.
3. Uni-Spark, Fung Shing, Parkfield, Ronastar and the Subscriber are wholly-owned by Mr. Ng. As such, Mr. Ng is the beneficial owner of the Shares held by such companies.
4. Mr. Ng, Ms. Cheung Choi Ngor and Hon. Raymond Arthur William Sears, Q.C. are Directors.
5. Mr. Paul Ng is the son of Mr. Ng.
6. Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges are directors of Uni-Spark.

Fund raising activities in the past 12-month period

Save as the Rights Issue, the Company had not conducted any other fund raising activities in the past 12 months immediately preceding the Latest Practicable Date.

Mandate to issue the Conversion Shares

The Subscription Agreement and all transactions contemplated thereunder, including the issue and allotment of the Conversion Shares under the Specific Mandate of the Company, are subject to the approval of the Independent Shareholders at the EGM.

Application has been made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

Implications under the Listing Rules

The Subscriber is wholly and beneficially owned by Mr. Ng, who is an executive Director and a substantial Shareholder and is directly or indirectly beneficially holding 88,461,607 Shares (representing approximately 29.36% of the total number of issued Shares) as at the Latest Practicable Date. Accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules.

Therefore, the Subscription Agreement and all transactions contemplated thereunder constitute a connected transaction for the Company and is subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the EGM. The Subscriber and its associates, namely Mr. Ng, Uni-Spark, Ronastar, Parkfield, Fung Shing and Mr. Paul Ng, holding approximately 33.24% of the total number of issued Shares in aggregate as at the Latest Practicable Date, shall abstain from voting at the EGM to be convened to consider and, if thought fit, to approve the Subscription Agreement and all transactions contemplated thereunder, the issue of the Convertible Bonds in accordance with the Subscription Agreement and obtaining the Specific Mandate.

LETTER FROM THE BOARD

Mr. Ng and Ms. Jessica Ng, who have material interest in all transactions as contemplated under the Subscription Agreement, have abstained from voting on the board resolutions approving the Subscription Agreement and all transactions contemplated thereunder.

Save for the Rights Issue, the Company has not conducted any rights issue or open offer within the 12-month period immediately preceding the Latest Practicable Date, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue or open offer within such 12-month period. The Subscription does not result in theoretical dilution effect of 25% or more on its own or in aggregate with the Rights Issue.

Independent Board Committee and Independent Financial Adviser

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric, has been established to consider the terms of the Subscription Agreement and all transactions contemplated thereunder, and to advise the Independent Shareholders as to whether the terms of the Subscription Agreement and all transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Opus Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and all transactions contemplated thereunder.

EGM

The EGM will be held at to consider and, if thought fit, pass the resolution to approve, among other things: (i) Subscription Agreement and all transactions contemplated thereunder; (ii) the issue of the Convertible Bonds in accordance with the Subscription Agreement; and (iii) the Specific Mandate under which, upon conversion of the Convertible Bonds, the Conversion Shares will be issued. The resolution in relation to the Subscription Agreement and all transactions contemplated thereunder at the EGM will be voted on by the Independent Shareholders by way of poll.

The Subscriber and its associates, namely Mr. Ng, Uni-Spark, Ronastar, Parkfield, Fung Shing and Mr. Paul Ng, holding approximately 33.24% of the total number of issued Shares in aggregate as at the Latest Practicable Date, shall abstain from voting at the EGM to be convened to consider and, if thought fit, to approve the Subscription Agreement and all transactions contemplated thereunder, the issue of the Convertible Bonds in accordance with the Subscription Agreement and obtaining the Specific Mandate.

The notice convening the EGM to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 2 June 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is also enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Union Registrars Limited, the share registrar of the Company in Hong Kong, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the list of shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 28 May 2020 to Tuesday, 2 June 2020 (both dates inclusive). No transfer of shares of the Company will be registered during these days. In order to qualify to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with Union Registrars Limited, the share registrar of the Company in Hong Kong, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 27 May 2020.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee which contains the recommendation from the Independent Board Committee to the Independent Shareholders regarding the resolution to approve the Subscription Agreement and all transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription Agreement and all transactions contemplated thereunder.

The Board including the Independent Board Committee after having considered the advice of the Independent Financial Adviser considers that the Subscription Agreement and all transactions contemplated thereunder, the issue of the Convertible Bonds in accordance with the Subscription Agreement and obtaining the Specific Mandate are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and recommends that the Independent Shareholders vote in favour of the resolution relating to the Subscription Agreement and all transactions contemplated thereunder at the EGM.

LETTER FROM THE BOARD

FURTHER INFORMATION

Your attention is drawn to the information set out in the appendix to this circular and the notice of the EGM.

Warnings: The Subscription is subject to the fulfilment or waiver (as the case may be) of a number of conditions, including but not limited to approval of the Subscription Agreement and all transactions contemplated thereunder by the Independent Shareholders at the EGM. As such, all transactions contemplated under the Subscription Agreement may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

Yours faithfully
For and on behalf of the Board
South China Financial Holdings Limited
南華金融控股有限公司
Cheung Choi Ngor
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Subscription Agreement and all transactions contemplated thereunder, for the purpose of inclusion in this circular.



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 619)

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular issued by the Company dated 15 May 2020 (the “**Circular**”) to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed by the Board as members to constitute the Independent Board Committee and to advise the Independent Shareholders in respect of the terms of the Subscription Agreement and all transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the Circular.

Opus Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Subscription Agreement and all transactions contemplated thereunder, the issue of the Convertible Bonds in accordance with the Subscription Agreement and obtaining the Specific Mandate are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Details of the advice and the principal factors and reasons from the Independent Financial Adviser has taken into consideration in giving such advice, are set out in the “Letter from the Independent Financial Adviser” in the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information as set out in the appendix thereto.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

After taking the advice of the Independent Financial Adviser as set out in the “Letter from the Independent Financial Adviser” in the Circular, we consider that, despite the entering into the Subscription Agreement is not in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement and all transactions contemplated thereunder, the issue of the Convertible Bonds in accordance with the Subscription Agreement and obtaining the Specific Mandate are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

We, therefore, recommend that you vote in favour of the resolution relating to the Subscription Agreement and all transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Independent Board Committee

**Tse Wong Siu Yin
Elizabeth**
*Independent non-executive
Director*

**Hon. Raymond Arthur
William Sears, Q.C.**
*Independent non-executive
Director*

**Tung Woon Cheung
Eric**
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Opus Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement for the purpose of inclusion in this circular.



18th Floor, Fung House
19–20 Connaught Road Central
Central, Hong Kong

15 May 2020

*To: The Independent Board Committee and the Independent Shareholders of
South China Financial Holdings Limited*

Dear Sir or Madam,

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

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 15 May 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 7 April 2020 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber (a connected person of the Company) in relation to, among others, the issue of the Convertible Bonds in an aggregate principal amount of HK\$50,000,000 due on the date falling on the third (3rd) anniversary of the Issue Date. The Convertible Bonds do not bear any interest.

The Convertible Bonds carry the conversion rights to convert into the Conversion Shares at the Conversion Price of HK\$0.22 per Conversion Share (subject to adjustment). As at the Latest Practicable Date, the Company has a total of 301,277,070 Shares in issue. Assuming (i) the conversion rights under the Convertible Bonds are exercised in full at the Conversion Price; and (ii) there is no other change to the total number of issued Shares from the Latest Practicable Date to the date of exercise in full of the conversion rights under the Convertible Bonds, a total of 227,272,727 new Shares, being the Conversion Shares, may be allotted and issued to the Subscriber (subject to certain restrictions), representing approximately 75.44% of the total number of issued Shares as at the Latest Practicable Date and approximately 43.00% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Subscriber is wholly and beneficially owned by Mr. Ng, an executive Director and a substantial Shareholder, who is directly or indirectly beneficially holding 88,461,607 Shares, representing approximately 29.36% of the total number of issued Shares as at the Latest Practicable Date. Accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Subscription Agreement and all transactions contemplated thereunder constitute a connected transaction for the Company and are subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the EGM.

The Subscriber and its associates, namely Mr. Ng, Uni-Spark, Ronastar, Parkfield, Fung Shing and Mr. Paul Ng, holding approximately 33.24% of the total number of issued Shares in aggregate as at the Latest Practicable Date, shall abstain from voting at the EGM to be convened to consider and, if thought fit, to approve the Subscription Agreement and all transactions contemplated thereunder, the issue of the Convertible Bonds in accordance with the Subscription Agreement and obtaining the Specific Mandate.

Mr. Ng and Ms. Jessica Ng, the executive Directors who have a material interest in all transactions as contemplated under the Subscription Agreement, have abstained from voting on the board resolutions approving the Subscription Agreement and all transactions contemplated thereunder. Save as disclosed above, there are no other Directors who are required to abstain from voting in the board meeting held to approve the Subscription Agreement and all transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mrs. Tse Wong Siu Yin Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric, all being the independent non-executive Directors, has been established to advise and make recommendation to the Independent Shareholders as to: (i) whether the Subscription Agreement and all transactions contemplated thereunder, the issue of the Convertible Bonds in accordance with the Subscription Agreement and obtaining the Specific Mandate are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; (ii) whether the entering into of the Subscription Agreement is in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote on the resolution in relation to the Subscription Agreement and all transactions contemplated thereunder to be proposed at the EGM. Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

We were appointed as the bookrunner to the Company in relation to the placing of unsubscribed rights shares and unsold rights shares under the compensatory arrangements (the “**Past Appointment**”) in relation to the proposed Rights Issue to be undertaken by the Company, details of which were disclosed in the circular of the Company dated 2 August 2019. The Rights Issue was not approved by the then independent shareholders at the extraordinary general meeting of the Company held on 23 August 2019 and hence it did not proceed. We also did not receive any fees from the Company for the Past Appointment.

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, the Subscriber or other parties that could reasonably be regarded as relevant to our independence. Apart from normal independent financial advisory fees paid or payable to us in connection with this appointment, no arrangements existed whereby we had received or will receive any fees or benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

- (i) the Company’s annual report for the year ended 31 December (“**FY**”) 2019 (the “**2019 Annual Report**”);
- (ii) the Subscription Agreement; and
- (iii) other information as set out in the Circular.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Company (collectively, the “**Management**”). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information have been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the Subscription Agreement and all transactions contemplated thereunder, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Subscription Agreement and all transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Information of the Group

The Company is an investment holding company. The principal activities of the Group consist of securities, commodities, bullion and forex broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services, asset and wealth management, property investment, media publications and financial public relation services, sale of jewellery products and investment holding. The business operations of the Group are carried out mainly in Hong Kong and are classified into the following segments: (i) broking; (ii) trading and investment; (iii) margin financing and money lending; (iv) corporate advisory and underwriting; (v) media publication and financial public relation services; and (vi) other business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the consolidated results of the Group for FY2018 and FY2019, as extracted from the 2019 Annual Report:

Table 1: Highlight of the financial results of the Group

| | For the year ended | |
|---|---------------------------|------------------|
| | 31 December | |
| | 2019 | 2018 |
| | <i>(audited)</i> | <i>(audited)</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Continuing operation | | |
| Revenue | 204,119 | 143,913 |
| — Broking | 33,001 | 42,497 |
| — Trading and investment | 27,076 | (37,225) |
| — Margin financing and money lending | 24,439 | 28,911 |
| — Corporate advisory and underwriting | 23,596 | 30,014 |
| — Media publications and financial public relation services | 49,092 | 54,889 |
| — Other business | 46,915 | 24,827 |
| Loss from operating activities | (77,506) | (228,032) |
| Discontinued operation | | |
| Net gain/(loss) for the year from a discontinued operation | 319 | (11,734) |
| Loss for the year | (77,187) | (239,766) |

Source: 2019 Annual Report

The Company recorded an increase in total revenue of approximately 41.8% from approximately HK\$143.9 million for FY2018 to approximately HK\$204.1 million for FY2019. This increase was mainly due to other business segment which registered a significant increase of approximately 89.0% to approximately HK\$46.9 million for FY2019 as well as the trading and investment segment which showed a turnaround from a negative revenue of approximately HK\$37.2 million for FY2018 to a revenue of approximately HK\$27.1 million for FY2019. Such turnaround in the trading and investment segment was mainly attributable to the financial performance of the Group's investment portfolio, due to an increase in fair value of financial assets, which was recognised through profit or loss.

Revenue in broking segment decreased by approximately 22.4% to approximately HK\$33.0 million for FY2019. The revenue decrease in broking segment was mainly attributable to the negatively impacted financial market of Hong Kong as a result of the widespread social unrest that took place since June 2019 and the uncertainties created by the on-going trade negotiations between the U.S. and China. These factors led to poor investors sentiment with the majority of the investors electing to leave the market temporarily in the second half of 2019. According to the statistics from the Stock Exchange, the average daily market turnover on the securities market plummeted by approximately 18.8% from approximately HK\$107.4 billion for FY2018 to approximately HK\$87.2 billion for FY2019, and the average number of trades per trading day dropped by approximately 6.3% from approximately 1.6 million in 2018 to approximately 1.5 million in 2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Revenue in margin financing and money lending segment decreased by approximately 15.6% from approximately HK\$28.9 million for FY2018 to approximately HK\$24.4 million for FY2019. The decrease in revenue in margin financing and money lending segment was mainly due to reduction in trading volume as the Hong Kong stock market was severely impacted by the poor investors sentiment since May 2019 and has experienced a significant decrease in liquidity. Furthermore, the new margin financing regulations which came into effect on 4 October 2019 put further pressure on the size of the Company's margin loan portfolio.

The Group also saw a revenue decline of approximately 21.3% from the corporate advisory and underwriting segment which recorded approximately HK\$23.6 million for FY2019. In line with the adversely affected financial market of Hong Kong, the reduction in the segment revenue was mainly due to the dampened investors' appetite for initial public offer deals and companies seeking to list in Hong Kong, which was a result of the US-China trade war and the succession of incidents involving social unrest in the second half of 2019. According to the statistics from the Stock Exchange, the total fund raised (including initial public offerings) in the securities market decreased by approximately 16.5% from approximately HK\$544.1 billion in 2018 to approximately HK\$454.2 billion in 2019.

The media and financial public relations services segment also experienced a drop in revenue from approximately HK\$54.9 million for FY2018 to approximately HK\$49.1 million for FY2019, representing a decrease of approximately 10.6%. The adversity in the economic and business environment resulted from the global economic uncertainty has further weakened the consumer sentiment and resulted in the decline in advertising spending in the market.

Revenue in other business segment comprised of asset and wealth management, property investment, jewellery business and other business. This segment registered a significant rise of approximately 89.0% in revenue, which was primarily attributable to the full year effect of revenue from jewellery business from approximately HK\$9.1 million for FY2018 to approximately HK\$29.7 million for FY2019 due to the acquisition of the jewellery business in September 2018.

The discontinued operation represented the disposal of Year Blossom Limited, a wholly-owned subsidiary of the Company, in which its subsidiaries were principally engaged in food and beverage operations in Nanjing, the PRC. The disposal was completed on 31 December 2019.

The Company recorded a loss for the year of approximately HK\$77.2 million for FY2019, representing an improvement in its loss position by approximately 67.8% from a loss position of approximately HK\$239.8 million for FY2018. Such improvement was mainly contributed by the decrease in fair value loss on financial assets at fair value through profit or loss by approximately 90.9%, from approximately HK\$146.9 million for FY2018 to approximately HK\$13.4 million for FY2019. This was due to the decrease in mark-to-market of the financial assets as a result of the fluctuation of the Hang Seng Index.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the consolidated financial position of the Group as at 31 December 2018 and 2019, as extracted from the 2019 Annual Report:

Table 2: Highlight of the financial position of the Group

| | As at 31 December | |
|--|--------------------------|------------------|
| | 2019 | 2018 |
| | <i>(audited)</i> | <i>(audited)</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets | 714,535 | 687,026 |
| Current assets | 1,365,719 | 1,600,373 |
| Cash and bank balances | 89,493 | 108,456 |
| Current liabilities | 1,056,412 | 1,185,496 |
| Non-current liabilities | 188,023 | 187,543 |
| Interest-bearing bank and other borrowings | 566,517 | 639,897 |
| Net assets | 835,819 | 914,360 |

Source: 2019 Annual Report

The non-current assets of the Group mainly comprised, among others, investment properties, equity investments designed at fair value through other comprehensive income, goodwill and long-term loan receivable. The total non-current assets increased by approximately 4.0% from approximately HK\$687.0 million as at 31 December 2018 to approximately HK\$714.5 million as at 31 December 2019. Such increase was mainly due to the increase in the fair value of the investment properties from approximately HK\$529.0 million as at 31 December 2018 to HK\$550.0 million as at 31 December 2019 resulting from an upward revaluation of the investment properties which consist of commercial office premises in Hong Kong.

The current assets mainly comprised of financial assets at fair value through profit or loss, loan receivable, trade receivables, cash held on behalf of clients and cash and bank balances. The total current assets decreased by approximately 14.7% from approximately HK\$1,600.4 million as at 31 December 2018 to approximately HK\$1,365.7 million as at 31 December 2019. Such decrease was mainly attributable to (i) a decrease of approximately 39.8% in loan receivables from approximately HK\$285.4 million as at 31 December 2018 to approximately HK\$171.7 million as at 31 December 2019 due to a drop in margin financing provided to client; and (iii) a decrease of approximately 36.1% in trade receivables from approximately HK\$167.6 million as at 31 December 2018 to approximately HK\$107.1 million as at 31 December 2019, as a result of a decline in pending trade receivables due from brokerage clients.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The current liabilities mainly consisted of client deposits, trade payables and interest-bearing bank and other borrowings. The total current liabilities decreased by approximately 10.9% from approximately HK\$1,185.5 million as at 31 December 2018 to approximately HK\$1,056.4 million as at 31 December 2019. The decrease was mainly due to (i) a decrease of approximately 54.5% in trade payables from approximately HK\$170.5 million as at 31 December 2018 to approximately HK\$77.6 million as at 31 December 2019; and (ii) a reduction of approximately 15.7% in interest-bearing bank and other borrowings from approximately HK\$487.0 million as at 31 December 2018 to approximately HK\$410.2 million as at 31 December 2019; which was partially mitigated by an increase in client deposits of approximately 9.6% from approximately HK\$485.2 million as at 31 December 2018 to approximately HK\$531.8 million as at 31 December 2019.

The major components in the non-current liabilities of the Company were interest-bearing bank and other borrowings and deferred tax liabilities. There was a slight increase in interest-bearing bank and other borrowings from approximately HK\$152.9 million as at 31 December 2018 to approximately HK\$156.3 million as at 31 December 2019, representing a mere rise of approximately 2.2%.

As at 31 December 2019, net assets of the Company was approximately HK\$835.8 million, representing a decrease of approximately HK\$78.6 million or 8.6% compared to HK\$914.4 million as at 31 December 2018.

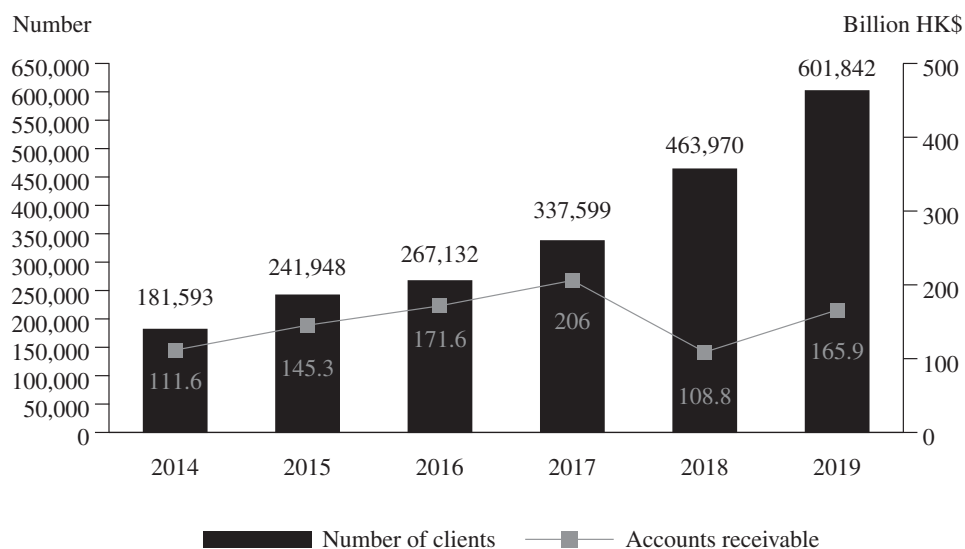
2. Industry outlook

As stated in the Letter from the Board, the Company intends to apply the majority of the net proceeds from the Subscription for the development of brokerage and lending business.

According to the Financial Reviews of the Securities Industry for the years ended 31 December 2014 to 2019 published by the SFC from 2015 to 2019, the number of active margin customers increased at a compound annual growth rate (“**CAGR**”) of approximately 27.1% from 181,593 in 2014 to 601,842 in 2019. The remarkable growth was mainly due to the active capital markets and rising demand for financing in Hong Kong. Meanwhile, the development of products and services of margin financing also supported the wider adoption of margin financing among investors. During the same period, amounts receivable from margin customers has experienced an overall increase at a CAGR of approximately 8.3%, from approximately HK\$111.6 billion in 2014 to approximately HK\$165.9 billion in 2019. The increase can be explained by the growing stock market in Hong Kong, supported by an increase in number of listings and rising southbound investor interests for trading on securities listed on the Stock Exchange.

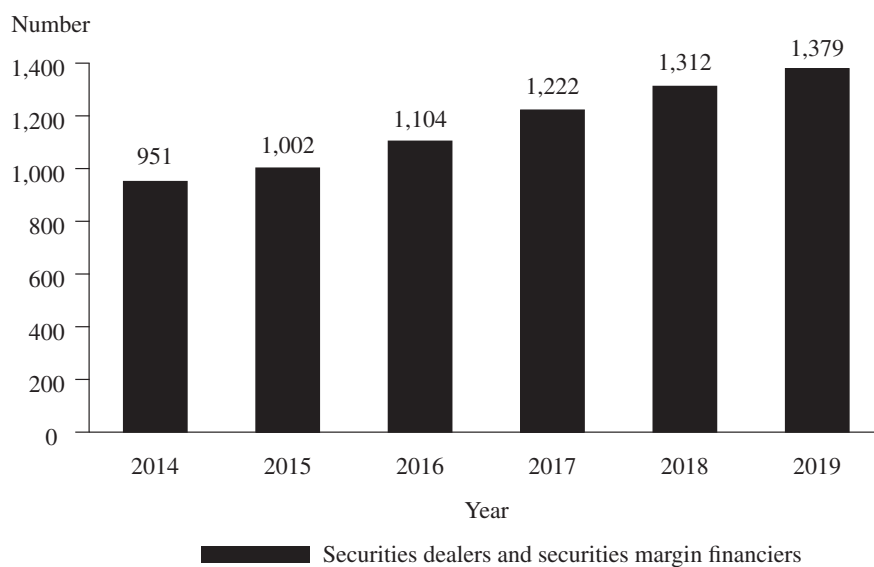
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Chart 1: Number of active margin customers and amounts receivable in Hong Kong, 2014–2019



Source: SFC Financial Reviews of the Securities Industry 2014 to 2019

Chart 2: Number of securities dealers and securities margin financiers in Hong Kong, 2014–2019



Source: SFC Financial Reviews of the Securities Industry 2014 to 2019

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The number of securities dealers and securities margin financiers also increased at a CAGR of approximately 7.7% from 951 in 2014 to 1,379 in 2019. The net profit of all securities dealers and securities margin financiers was approximately HK\$25.2 billion in 2019, of which the net securities commission income decreased by approximately 17.8% to approximately HK\$19.9 billion in 2019 compared to approximately HK\$24.2 billion in 2018 whilst the gross interest income increased by approximately 3.1% to approximately HK\$23.2 billion in 2019 compared to approximately HK\$22.5 billion in 2018. In 2019, the total value of transactions of all securities dealers and securities margin financiers, including trading in equities, bonds and other securities in Hong Kong and overseas was approximately HK\$85,831.4 billion, compared to approximately HK\$89,678.4 billion in 2018, representing a slight drop of approximately 4.3%.

In light of the outbreak of novel coronavirus (COVID-19) since December 2019, the spread of coronavirus in Hong Kong and other countries has affected the global economy, which has resulted in uncertainties and sparked market volatility in the securities market. Market concerns and fears are expected to temporarily undermine the growth of securities market and financial services market in Hong Kong as investors have lost confidence and become more cautious. According to the COVID-19 Potential Implications for the Banking and Capital Markets published by Deloitte in March 2020, there would be reduced demand for financial services and banking products if general economic condition deteriorates amid the outbreak of COVID-19. As discussed with the Management, the Management believes that once the outbreak of COVID19 is effectively controlled, it is anticipated that the securities market and financial services market will recover in the long-run. Due to the quantitative easing monetary policies and expansionary fiscal policies introduced by countries around the world, it is noted that the PRC government has issued multiple financial policies and measures on the epidemic prevention and control to ensure uninterrupted financial services and stabilise market expectation. On 3 April 2020, the People's Bank of China ("PBOC") announced that it would cut (i) reserve requirement ratio for small and medium-sized banks by 100 basis points by 15 April 2020 and 15 May 2020 respectively; and (ii) interest rate on financial institutions' excess reserves with PBOC from 0.72% to 0.35% from 7 April 2020, in an effort to bolster the real economy amid the novel coronavirus outbreak. In addition, on 3 April 2020, the Hong Kong Monetary Authority ("HKMA") announced that it would reduce the current level of regulatory reserves for banks by half to order to help ease the cashflow pressure on small and medium-sized enterprises and support their financing needs. Taking into account the above and the various stimulus packages announced by the Hong Kong government to help companies and enterprises in this challenging time, we are of the view that the outlook of the margin financing business is cautiously encouraging.

3. Reasons for and benefits of the issue of the Convertible Bonds

As discussed under the section headed "1. Information of the Group" above and as disclosed in the 2019 Annual Report, the Group recorded a loss for the year of approximately HK\$77.2 million for FY2019. As stated in the Letter from the Board and as advised by the Management, the cash and bank balances of the Group as at 31 December 2019 stood at approximately HK\$89.5 million, of which approximately HK\$77.5 million are funds which are (i) committed in licensed subsidiaries of the Company for maintaining the required liquid capital under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Laws of Hong Kong) (“**FRR**”) where the Group is required to maintain certain level of cash and bank balances which is 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, details of which are set out in the section headed “Reasons for and benefits of the issue of the Convertible Bonds and use of proceeds” in the Letter from the Board; and (b) approximately HK\$12.0 million are cash available for daily operation.

According to the Letter from the Board, the estimated net proceeds from the Subscription amounted to approximately HK\$49.4 million. The Company intends to apply the net proceeds for the following purposes: (i) approximately HK\$30.0 million for the increase in the Group’s FRR liquid capital and subsequent use for the development of brokerage and lending business; and (ii) approximately HK\$19.4 million for the use of the Group’s general working capital by the end of 2020, which includes (a) approximately HK\$6.0 million for the use of the Group’s marketing and promotion expenses; (b) approximately HK\$7.0 million for the use of the Group’s repayment of mortgage loan principals; and (c) approximately HK\$6.4 million for the use of other expenses, which include administrative expenses such as employees’ salaries.

With reference to the 2019 Annual Report, it is noted that South China Securities Limited (“**SCSL**”), a wholly-owned subsidiary of the Company, is principally engaged in securities broking, margin financing and the provision of underwriting services and South China Commodities Limited (“**SCCL**”), a wholly-owned subsidiary of the Company, is principally engaged in futures and commodities brokerage business. As discussed in Table 1 in the section headed “1. Information of the Group” above, the total revenue from the broking, margin financing and money lending segments contributed more than 45% and 25% to the total revenue of the Group for FY2018 and FY2019 respectively.

Due to the recent outbreak of COVID-19 and the unfavourable global conditions, as discussed with the Management, 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. In order to replenish the Group’s FRR liquid capital to a more reasonable level to avoid dampening the Group’s brokerage and lending business, the Company planned to use HK\$30.0 million from the net proceeds to gradually increase the FRR liquid capital of SCSL and SCCL to ensure the Group’s brokerage and lending business can be further developed and expanded. In this regard, we have reviewed the historical excess liquid capital under the FRR of SCSL and SCCL, the two major licensed subsidiaries of the Company, as at 31 October 2019, 31 December 2019 and 31 March 2020 respectively and the estimated excess liquid capital of SCSL and SCCL as at 31 March 2020, assuming that the Subscription has been completed on 31 March 2020. We further enquired with the Management about the basis used to derive such estimated excess liquid capital and we are of the view that the such estimated excess liquid capital is reasonable. We were given to understand that, in order to replenish to such estimated level of excess liquid capital as at 31 March 2020, the Group does not have sufficient existing funds if it is to rely only on the existing reserved cash for the FRR liquid capital of the licensed subsidiaries of the Company as disclosed above. Therefore, taking into consideration of the prospects of the margin financing industry in Hong Kong as stated in the section headed “2. Industry outlook”

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

above and the net proceeds from the Subscription will provide the necessary funding to replenish FRR liquid capital of the Group to a reasonable level, we are of the view that the intended utilisation of the net proceeds from the Subscription is fair and reasonable so far as the Independent Shareholders are concerned.

Due to the outbreak of the COVID-19, it has been challenging for the Group to operate its business. We have discussed with the Management and were given to understand that the Company expects the stock and futures market turnover will increase due to the quantitative easing monetary policies and expansionary fiscal policies introduced by countries around the world. We have further conducted a research and noted that the PRC government has issued multiple financial policies and measures on the epidemic prevention and control to ensure uninterrupted financial services and stabilise market expectation and the HKMA announced that it would reduce the current level of regulatory reserves for banks by half to order to help ease the cashflow pressure on small and medium-sized enterprises and support their financing needs, details of which are set out in the section headed “2. Industry outlook” above. As such, the Company plans to spend approximately HK\$6.0 million of the net proceeds in digital marketing targeting the PRC clients during the second and third quarter of 2020. As at the Latest Practicable Date, the Company has already invited several digital marketing agencies to submit proposals for the Group’s promotion campaigns in PRC which we have reviewed some of such proposals from the respective agencies. Furthermore, as advised by the Management, it will take time to build the client base in the PRC in order to improve the Group’s performance.

As for the use of proceeds from the Subscription of HK\$7.0 million to partial repay mortgage loan principals, we noted that the total amount of finance costs of the Group for FY2019 was approximately HK\$20.0 million. We are of the view that after the partial repayment of mortgage loan principals, this will lower the finance costs of the Group, given the mortgage loan incurs an interest rate of HIBOR (Hong Kong Interbank Offered Rate) plus 2.25% per annum. Thus as the Convertible Bonds do not bear any interest, it is in the interest of the Company that the mortgage loan principals be repaid by the proceeds from the Subscription. Therefore, we are of the view that the issue of the Convertible Bond with no interest and a tenure of three years represents a means for the Company to relieve its financial pressure at zero finance cost and provide financing in the medium term, hence enhancing the working capital of the Group.

The remaining net proceeds of approximately HK\$6.4 million from the Subscription will be used as general working capital for the Group. In this regard, we have enquired with the Company and are advised that part of net proceeds is primarily intended to defray the Group’s administrative expenses such as employees’ salaries. We also note from the 2019 Annual Report and as advised by the Company, the Group’s net cash flow used in the operating activities was approximately HK\$63.7 million for FY2019, of which the majority was committed in licensed companies and overseas subsidiaries and cannot be freely used as daily operating expenses. Having considered that the majority of the cash and bank balances totalling approximately HK\$77.5 million as at 31 December 2019 are locked up for fulfilling the liquid capital requirements of licensed activities carried out by the Group’s subsidiaries, details of which are set out in the section headed “Reasons for and benefits of the issue of the Convertible Bonds and use of proceeds” in the Letter from the Board, only approximately HK\$12.0 million are available cash for daily operation, which is relatively thin when compared

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to the scale of its operation and expenses. We therefore consider it is justifiable for the Company to raise additional fund for its operations and business development, apart from the repayment of the mortgage loan principals, which is in the interests of the Company and the Shareholders as a whole.

Other financing alternatives considered by the Company

Upon enquiry with the Management, the Company has considered other financing alternatives for the Group to raise funds, including but not limited to, bank borrowings and pure equity financing, such as rights issue or placing of new Shares, and concluded that the issue of Convertible Bonds would provide certainty on the fund-raising and at the lowest cost, since the Convertible Bonds carry zero interest.

The Company had attempted the Rights Issue to raise gross proceeds of approximately HK\$189.8 million but the resolution was voted down by the then independent shareholders at the extraordinary general meeting of the Company held on 23 August 2019. Further details of the Rights Issue are set out in the circular of the Company dated 2 August 2019.

The Directors have also considered other means of pure equity fund raising such as placing of new Shares but any placing exercise would only be conducted on a best-effort basis which may impose uncertainty on the final amount of proceeds to be raised and subject to market conditions. It will also result in an immediate dilution of the shareholding interests of the existing Shareholders.

With respect to debt financing/bank borrowings, the Company was unable to obtain any debt financing of meaningful loan size at favourable terms acceptable to the Company due to the fact that the Group does not have any other significant asset as collaterals to obtain further bank loans. With reference to the 2019 Annual Report, we noted that the current and non-current interest-bearing bank and other borrowings of the Company amounted to approximately HK\$410.2 million and HK\$156.3 million, of which more than 96% were secured, as at 31 December 2019. Given that the Company would not be able to provide material pledge for the potential loan, a higher interest rate on the loan may be required by the commercial banks. However, as bank borrowings will incur interest charges and represent a financial burden to the Group, it will have a negative impact on the financial position of the Group.

Fund raising activities in the past 12-month period

Save for the Rights Issue which was voted down at the extraordinary general meeting of the Company held on 23 August 2019, the Company had not conducted any other fund raising activities in the past 12 months immediately preceding the Latest Practicable Date.

In view of the above and in particular, (i) the Convertible Bonds being non-interest bearing is an effective financing solution to partially reduce the Company's interest expenses, compared to the interest rates of the Group's bank and other borrowings ranging from approximately 2.14% per annum to 7.0% per annum; (ii) the issue of Convertible Bonds will be fully subscribed by the Subscriber, demonstrating the confidence of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Mr. Ng, being an executive Director and a substantial Shareholder, in the Company's future development; (iii) the Subscription can raise immediate funding for the Group without imposing immediate dilution on the shareholding of the existing Shareholders, or at unfavourable terms given the financial condition of the Group, to enhance its working capital; and (iv) the Subscription is an appropriate financing option for the Group under the current circumstances as compared with other financing alternatives, as the analysis on other financing alternatives is set out in the paragraph headed "Other financing alternatives considered by the Company" above, we are of the view that raising funds by way of the issue of the Convertible Bonds is the preferred option over other equity and debt financing alternatives.

4. Principal terms of the Subscription Agreement

Set out below is a summary of the principal terms of the Subscription Agreement. Further details are set out in the Letter from the Board under the section headed "The Subscription Agreement".

Date: 7 April 2020 (after trading hours)

Parties: Issuer: The Company

The Subscriber: Total Grace Investments Limited

The Convertible Bonds will be fully subscribed by the Subscriber.

The Subscriber is an investment holding company. As at the Latest Practicable Date, the Subscriber is wholly and beneficially owned by Mr. Ng, who is a substantial Shareholder and an executive Director. Accordingly, the Subscriber is a connected person of the Company under the Listing Rules.

Subject matter

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$50,000,000 on the Completion Date.

Conversion Shares

The Conversion Shares, when allotted and issued, will be credited as fully paid, free from any encumbrance and will rank *pari passu* in all respects with the Shares in issue on the conversion date. The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM. An application has been made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon conversion of the Convertible Bonds.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conditions precedent

The Subscription is conditional upon the following conditions being fulfilled (or waived, if applicable) at or before 5:00 p.m. on the Longstop Date (Hong Kong time):

- (i) the Listing Committee having granted listing of and permission to deal in the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds;
- (ii) the Company having performed all of its obligations under the Subscription Agreement to be performed on or before Completion and none of the warranties set out in the Subscription Agreement having been breached by the Company in any material respect (or, if capable of being remedied, has been remedied), or is misleading or untrue in any material respect;
- (iii) 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 Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds; and
- (iv) the passing of all necessary Independent Shareholders' approval of the Company (as required), among other matters, regarding the issue of the Convertible Bonds, 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 Subscriber may, at its discretion and upon such terms as it thinks fit, waive compliance with the condition (ii) set out above. None of the other conditions may be waived by either party. In the event that any of the above conditions is not fulfilled (or waived, if applicable) on or before the Longstop Date, the Subscription will not proceed.

Completion

Completion will take place on the Completion Date after the fulfilment or waiver (as the case may be) of the conditions set out in the Subscription Agreement.

On the Completion Date, the Convertible Bonds will be issued by the Company to the Subscriber at full face value, that is, HK\$50,000,000.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Principal terms of the Convertible Bonds

Set out below is a summary of the principal terms of the Convertible Bonds, which were arrived at after arm's length negotiations between the Company and the Subscriber. Further details are set out in the Letter from the Board under the section headed "The Subscription Agreement — Principal terms of the Convertible Bonds".

| | |
|-------------------|--|
| Issuer: | The Company |
| Principal amount: | HK\$50,000,000 |
| Issue price: | 100% of the principal amount of the Convertible Bonds |
| Interest rate: | Nil |
| Maturity Date: | The date falling on the third (3rd) anniversary of the Issue Date or, if that is not a Business Day, the first Business Day thereafter. |
| Status: | The Convertible Bonds constitute direct, unsecured, unsubordinated and unconditional obligations of the Company and rank <i>pari passu</i> and without any preference or priority among themselves. The payment obligations of the Company under the Convertible Bonds shall, subject to such exceptions as may be provided by applicable laws, rank at least <i>pari passu</i> with all its other present and future direct, unsecured, unsubordinated and unconditional obligations. |
| Conversion right: | Subject as provided in the terms of the Convertible Bonds, the Convertible Bonds are convertible in whole or in part into new Shares any time during the period commencing from the Issue Date, at the Conversion Price, subject to adjustment in accordance with the terms of the Convertible Bonds. Any conversion shall be made in amounts of not less than a whole multiple of HK\$10,000,000 and no fraction of a Share shall be issued on conversion. |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

If the issue of Conversion Shares following the exercise by a Bondholder of the conversion rights attaching to the Convertible Bonds held by such Bondholder would result in:

- (i) such Bondholder and parties acting in concert with it (within the meaning of the Takeovers Code), taken together, directly or indirectly exceeding 2% creeper rule under Rule 26.1 of the Takeovers Code within any 12-month period from a holding of voting rights of between 30% and 50% and a mandatory general offer obligation will be triggered under the Takeovers Code, unless (a) such Bondholder and parties acting in concert with it comply with the Takeovers Code and make a general offer to acquire for all the Shares not already owned by them; or (b) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the independent shareholders and is granted by the Executive before the date of completion of the conversion; or
- (ii) a mandatory general offer obligation being triggered under the Takeovers Code in respect of any other Shareholder and the parties acting in concert with it (within the meaning of the Takeovers Code), unless either (a) such Bondholder and parties in concert with it comply with the Takeovers Code and make a general offer to acquire for all the Shares not already owned by them; or (b) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the independent shareholders and is granted by the Executive before the date of completion of the conversion; or
- (iii) the Company not meeting the Public Float Requirement immediately after the conversion,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

then the number of Conversion Shares to be issued pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not result in a breach of the Public Float Requirement or mandatory general offer being triggered under the Takeovers Code; and the balance of the conversion rights attaching to the Convertible Bonds which the Bondholder sought to convert shall be suspended until such time when the Company is able to issue additional Shares in satisfaction of the exercise of the said balance of conversion rights attaching to the Convertible Bonds and at the same time comply with the Public Float Requirement or without triggering a mandatory general offer under the Takeovers Code or the general offer is made by such Bondholder or Shareholder and parties acting in concert with it respectively or a whitewash waiver is approved and granted (as the case may be) as set out above.

- Conversion period: The holder(s) of the Convertible Bonds shall have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares for the period commencing from the Issue Date up to 4:00 p.m. on the Maturity Date (Hong Kong time).
- Conversion Price: The Conversion Price is initially HK\$0.22 per Conversion Share, subject to adjustment provisions.
- Redemption upon maturity: Any Convertible Bond which remains outstanding by 4:00 p.m. (Hong Kong time) on the Maturity Date shall be redeemed by the Company at a redemption amount equal to the principal amount of the outstanding Convertible Bonds together with interest accrued thereon (if any).

As at the Latest Practicable Date, the Company has a total of 301,277,070 Shares in issue. Assuming (i) the conversion rights under the Convertible Bonds are exercised in full at the Conversion Price; and (ii) there is no other change to the total number of issued Shares from the Latest Practicable Date to the date of exercise in full of the conversion rights under the Convertible Bonds, a total of 227,272,727 new Shares, being the Conversion Shares, may be allotted and issued to the Subscriber (subject to certain restrictions), representing approximately 75.44% of the total number of issued Shares as at the Latest Practicable Date and approximately 43.00% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares.

6. Evaluation of the terms of the Convertible Bonds

(a) Evaluation of the Conversion Price

The Conversion Price of HK\$0.22 per Conversion Share represents:

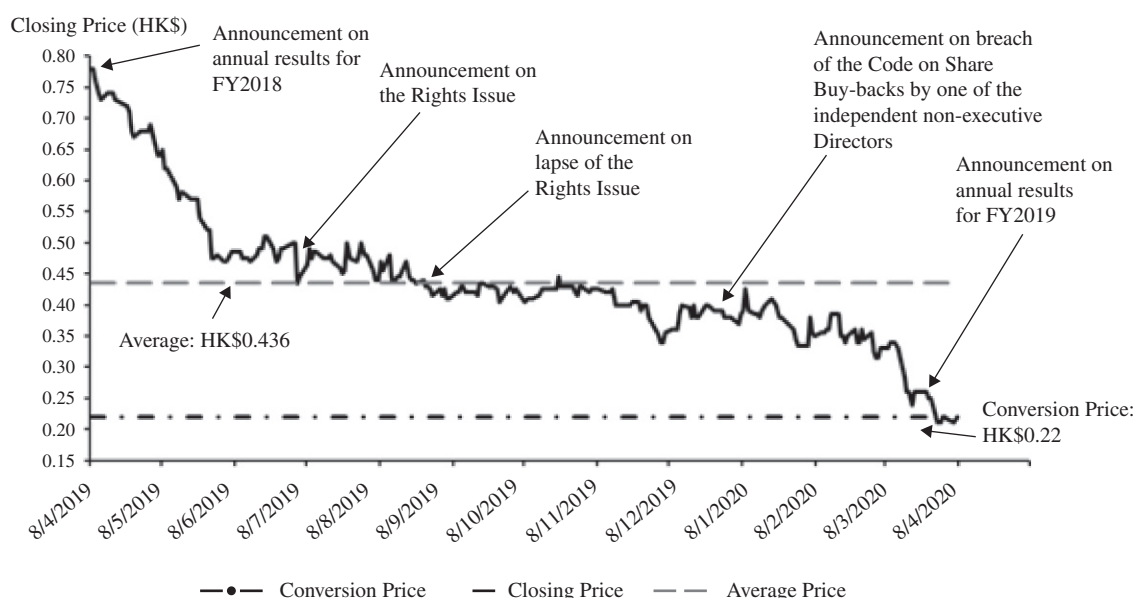
- (i) a premium of approximately 4.76% over the closing price of HK\$0.21 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) equivalent to the closing price of HK\$0.22 per Share as quoted on the Stock Exchange on the Last Trading Day, being the date of the Subscription Agreement;
- (iii) a premium of approximately 0.92% over the average closing price of approximately HK\$0.218 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to and including the Last Trading Day; and
- (iv) a discount of approximately 3.08% to the average closing price of approximately HK\$0.227 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(I) Historical Share price performance

In order to assess the fairness and reasonableness of setting the initial Conversion Price at HK\$0.22 per Conversion Share, we have reviewed the daily closing prices of the Shares from 8 April 2019, being one year prior to the Last Trading Day (the “**Review Period**”). We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices prior to the announcement of the Company dated 7 April 2020 regarding the Subscription and such comparison is relevant for the assessment of the fairness and reasonableness of the Conversion Price. The following diagram sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

Chart 3: Movement of the Share Price during the Review Period



Source: the Stock Exchange

During the Review Period, the closing prices of the Shares demonstrated a general decreasing trend since 8 April 2019 and ranged from the highest of HK\$0.780 per Share to the lowest of HK\$0.211 per Share, with an average of approximately HK\$0.436 per Share. There are some notable events below during the Review Period:

- (i) the Share closing price was at the peak of HK\$0.780 on 8 April 2019, after the publication of the announcement in relation to the annual results for FY2018 on 20 March 2019;
- (ii) the Share closing price descended to a low of HK\$0.435 on 4 July 2019, immediately after the publication of the announcement in relation to the Rights Issue on 3 July 2019;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the Share closing price was at a low of HK\$0.435 on 23 August 2019, being the announcement date relating to the lapse of the Rights Issue;
- (iv) although we note that there was an announcement in relation to breach of the Code on Share Buy-backs by an independent non-executive Director on 31 December 2019, the Share closing price nevertheless increased from a low of HK\$0.340 on 4 December 2019 to a high of HK\$0.425 on 9 January 2020; and
- (v) the Shares closing price continued its decline by approximately 36.1% from HK\$0.330 on 13 March 2020 to the lowest price in the last twelve months of HK\$0.211 on 30 March 2020 immediately after the publication of the announcement in relation to the annual results for FY2019 on 17 March 2020.

As advised by the Management, other than the events mentioned above, the Management were not aware of any events that led to the decreasing trend in the Share price for the Review Period.

(II) Trading liquidity of the Shares

The following table sets out the total trading volume, the average daily trading volume of the Shares and the percentage of the average daily trading volume over the total number of issued Shares for each month during the Review Period:

| Month | Total trading volume (Shares) | Number of trading days | Average daily trading volume (Shares) (Note 1) | Percentage of the average daily trading volume over total number of issued Shares (Note 2) |
|-------------|----------------------------------|------------------------|--|---|
| 2019 | | | | |
| April | 2,974,000 | 15 | 198,267 | 0.066% |
| May | 4,765,500 | 21 | 226,929 | 0.075% |
| June | 969,000 | 19 | 51,000 | 0.017% |
| July | 11,926,733 | 22 | 542,124 | 0.180% |
| August | 5,871,261 | 22 | 266,876 | 0.089% |
| September | 2,436,945 | 21 | 116,045 | 0.039% |
| October | 1,184,111 | 21 | 56,386 | 0.019% |
| November | 748,803 | 21 | 35,657 | 0.012% |
| December | 973,000 | 20 | 48,650 | 0.016% |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

| Month | Total trading volume (Shares) | Number of trading days | Average daily trading volume (Shares) (Note 1) | Percentage of the average daily trading volume over total number of issued Shares (Note 2) |
|------------------------------------|----------------------------------|------------------------|--|---|
| 2020 | | | | |
| January | 1,059,750 | 20 | 52,988 | 0.018% |
| February | 969,102 | 20 | 48,455 | 0.016% |
| March | 1,233,528 | 22 | 56,069 | 0.019% |
| April (up to the Last Trading Day) | 360,000 | 5 | 72,000 | 0.024% |

Source: the Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.
2. Calculated based on the total number of Shares in issue at the end of each month/period.

As illustrated in the above table, the average daily trading volume of the Shares was low during the Review Period, with a range of approximately 35,657 Shares to approximately 542,124 Shares, representing approximately 0.012% to 0.180% of the total number of Shares in issue as at the end of relevant month/period.

We were advised by the Management that the exceptionally higher average daily trading volume of the Shares of 542,124 Shares in July 2019 was mainly due to the publication of the announcement in relation to the Rights Issue. Subsequent to the lapse of the Rights Issue announced on 23 August 2019, the average daily trading volume of the Shares continuously decreased since September 2019 of approximately 116,045 Shares to the Last Trading Day of 72,000 Shares.

Given the generally thin trading of the Shares during the Review Period, this may imply a lack of interest from potential investors to invest in the Shares. We therefore consider that it is reasonable to set the Conversion Price at the closing price of the Share on the Last Trading Day to maintain its attractiveness to the Subscriber.

(III) Comparable issues analysis

To assess the fairness and reasonableness of the key terms of the Convertible Bonds, including: (i) interest rate; (ii) term to maturity; and (iii) conversion price, we have conducted a research, on a best effort basis, of recent proposed issue of convertible bonds/notes under specific mandate to both connected persons and independent third parties by companies listed on the Stock Exchange. We have considered the proposed issue of convertible bonds/notes under specific mandate to both connected persons and independent third parties in our research, since the terms of such issuance are arrived at based on prevailing market conditions regardless of whether the subscribers are connected persons or not and represent an unbiased reference on market terms, therefore providing a good reference in our evaluation of the terms of the Convertible Bonds. Based on our best endeavour and as far as we are aware, we have identified a total of 12 comparable issues of convertible bonds/notes (the “**Comparable Issues**”), which was announced from 1 January 2020, being approximately three months prior to and including the Last Trading Day, being the date of the Subscription Agreement (the “**Comparison Period**”) to provide a general reference for the recent market practice in relation to the key terms of the convertible bonds/notes under similar market condition. We consider that the Comparison Period is appropriate since it provided, in our opinion, a reasonable and meaningful number of samples for our analysis purpose and the Comparable Issues are a fair and representative sample.

Shareholders should note that the principal businesses, market capitalisations, profitability and financial positions of the companies undertaking the Comparable Issues may not be the same as those of the Company, and we have not conducted any in-depth investigation into their businesses and operations. As the Comparable Issues can provide a general reference of the key terms for similar transactions in Hong Kong under the current market conditions, we consider, to the best of our knowledge and ability, that the Comparable Issues are exhaustive, fair and indicative in assessing the fairness and reasonableness of the key terms of the Convertible Bonds.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 3: Analysis of the Comparable Issues

| Date of announcement | Company name (stock code) | Issue to connected person(s) | Interest rate (%) | Term to maturity (year(s)) | Premium/(discount) of conversion price over/to | | |
|----------------------|--|------------------------------------|-------------------------|----------------------------------|---|---|---|
| | | | | | the closing price as at the last trading day prior to/on the date of announcement (%) | the average closing price of the last five (5) trading days prior to the last trading day prior to/on the date of announcement (%) | the average closing price of the last ten (10) trading days prior to the last trading day prior to/on the date of announcement (%) |
| 27 March 2020 | Asia Energy Logistics Group Limited (351) | No | Nil | 3 | (3.03) | (6.98) | (21.95) |
| 2 March 2020 | China Regenerative Medicine International Ltd (8158) | No | Nil | 3 | (5.66) | (16.81) | (15.47) |
| 26 February 2020 | China Gem Holdings Limited (1191) | No | 8 | 3 | 6.67 | 6.67 | 6.52 |
| 25 February 2020 | Wai Chun Group Holdings Limited (1013) | Yes | 5 | NA (Note 1) | 2.44 | 3.45 | 2.44 |
| 18 February 2020 | Titan Petrochemicals Group Limited (1192) | No | 5 | 2 | 63.27 | 67.36 | 73.54 |
| 23 January 2020 | Wai Chun Bio-Technology Limited (660) | Yes | 4 | 3 | (16.92) | (9.50) | (9.75) |
| 23 January 2020 | Viva Biotech Holdings Limited (1873) | No | 2.5 | 5 | 26.00 | 25.10 | 28.28 |
| 23 January 2020 | Sino Biopharmaceutical Limited (1177) | No | Nil | 5 | 57.51 | 60.56 | 67.16 |
| 14 January 2020 | ANTA Sports Products Limited (2020) | No | Nil | 5 | 40.00 | 42.66 | 46.10 |
| 13 January 2020 | Best Food Holdings Company Limited (1488) | Yes | Nil | 7 | 12.38 | 9.87 | 10.69 |
| 10 January 2020 | Merdeka Financial Group Limited (8163) | Yes | Nil | 3 | (8.33) | 0.00 | 2.80 |
| 8 January 2020 | Dafy Holdings Limited (1826) | No | 6 | 1 | 12.96 | 14.45 | 9.12 |
| | Maximum | | 8.00 | 7.00 | 63.27 | 67.36 | 73.54 |
| | Minimum | | 0.00 | 1.00 | (16.92) | (16.81) | (21.95) |
| | Average | | 2.54 | 3.64 | 15.61 | 16.40 | 16.62 |
| | The Company | Yes | 0.00 | 3.00 | 0.00 | 0.92 | (3.08) |

Source: the Stock Exchange

Notes:

1. The issue of perpetual bond has no maturity date.
2. The proposed issue of the convertible bonds announced on 22 January 2020 by Huajun International Group Limited (stock code: 377) is excluded from the Comparable Issues and the above analysis as it appears to be an extreme outlier as compared to other comparable issues, thus does not provide a meaningful analysis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) Interest rate

The Convertible Bonds are non-interest bearing. As shown in the table above, we note that the interest rates of the Comparable Issues ranged from nil to 8% per annum. Accordingly, the interest rate of the Convertible Bonds falls within the range and is at the minimum value of the interest rates range of the Comparable Issues.

We also undertook a further analysis in considering only the issue of convertible bonds/notes to connected person(s) (the “**Connected Comparable Issues**”) and note that the interest rates of the Connected Comparable Issues ranged from nil to 5%. The interest rate of the Convertible Bonds also falls within such range and similarly is at the minimum value of the interest rates range of the Connected Comparable Issues. In conclusion, the fact that the Convertible Bonds carry zero interest is in the interests of the Company and the Shareholders as a whole.

(ii) Term to maturity

The terms to maturity of the Comparable Issues ranged from one year to seven years, with an average term of approximately 3.64 years. We note that the terms to maturity of the Convertible Bonds which is three years falls within such range and is slightly below the average term.

We also noted that the terms to maturity of the Connected Comparable Issues ranged from three years to seven years, with an average term of approximately 4.33 years. The terms to maturity of the Convertible Bonds also falls within such range and is slightly below the average term of approximately 4.33 years. Therefore, the terms to maturity of the Convertible Bonds is generally in line with the recent market practice.

(iii) Conversion Price

As set out in the table above, we note that the conversion price to: (i) the closing price on the last trading day prior to the announcements in relation to the respective Comparable Issues ranged from a premium of approximately 63.27% to a discount of approximately 16.92%, with an average premium of approximately 15.61%; (ii) the average closing price of the last five (5) trading days prior to the announcements in relation to the respective Comparable Issues ranged from a premium of approximately 67.36% to a discount of approximately 16.81%, with an average premium of approximately 16.40%; and (iii) the average closing price of the last ten (10) trading days prior to the announcements in relation to the respective Comparable Issues ranged from a premium of approximately 73.54% to a discount of approximately 21.95%, with an average premium of approximately 16.62%. As the Conversion Price is (i) equal to the closing price per Share on the Last Trading Day; (ii) at a premium of 0.92% over the average closing price per Share for the last five (5) consecutive trading days immediately prior to and including the Last Trading

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Day, the premium as represented by the Conversion Price is lower than the average premium of the average closing price per Share for the last five (5) consecutive trading days immediately prior to the last trading day prior to/on the date of announcement of the Comparable Issues; and (iii) at a discount of 3.08% over the average closing price per Share for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day. Although the Conversion Price is at a discount as compared to the average premium of the average closing price per Share for the last ten (10) consecutive trading days immediately prior to the last trading day prior to/on the date of announcement of the Comparable Issues, it nonetheless falls within the range of the Comparable Issues.

In respect of the Connected Comparable Issues, we also noted that the conversion price to: (i) the closing price per share on the last trading day prior to the announcements in relation to the respective Connected Comparable Issues ranged from a premium of approximately 12.38% to a discount of approximately 16.92%, with an average discount of approximately 2.61%; (ii) the average closing price of the last five (5) trading days prior to the announcements in relation to the respective Connected Comparable Issues ranged from a premium of approximately 9.87% to a discount of approximately 9.50%, with an average premium of approximately 0.95%; and (iii) the average closing price of the last ten (10) trading days prior to the announcements in relation to the respective Connected Comparable Issues ranged from a premium of approximately 10.69% to a discount of approximately 9.75%, with an average premium of approximately 1.55%. As the Conversion Price is (i) equal to the closing price per Share on the Last Trading Day; (ii) at a premium of approximately 0.92% over the average closing price per Share for the last five (5) consecutive trading days immediately prior to and including the Last Trading Day, it falls within the range of the Connected Comparable Issues although the premium as represented by the Conversion Price is slightly lower than the average premium of the Connected Comparable Issues; and (iii) at a discount of approximately 3.08% over the average closing price per Share for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day. Although the Conversion Price is at a discount as compared to the average premium of the average closing price per Share for the last ten (10) consecutive trading days immediately prior to the last trading day prior to/on the date of announcement of the Connected Comparable Issues, it nonetheless falls within the range of the Connected Comparable Issues.

(iv) Other major terms of the Convertible Bonds

We have reviewed the other major terms of the Convertible Bonds, including the redemption and conversion rights clauses as stated in the Subscription Agreement and noted that they are generally in line with normal market terms of other convertible bonds.

Takeovers Code and Listing Rules implications

The terms of the Convertible Bonds stipulate that the conversion of the Convertible Bonds is subject to the Listing Rules and the Takeovers Code (the “**Conversion Restrictions**”). This means that if such conversion would result in: (a) such Bondholder and parties acting in concert with it (within the meaning of the Takeovers Code), taken together, directly or indirectly exceeding 2% creeper rule under Rule 26.1 of the Takeovers Code within any 12 month period from a holding of voting rights of between 30% and 50% and a mandatory general offer obligation will be triggered under the Takeovers Code; (b) a mandatory general offer obligation being triggered under the Takeovers Code in respect of any other Shareholder and the parties acting in concert with it (within the meaning of the Takeovers Code); or (c) the Company not meeting the Public Float Requirement immediately after the conversion, the number of Conversion Shares to be issued pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not result in the occurrence of either of the three events mentioned above, unless either (i) such Bondholder and parties in concert with it comply with the Takeovers Code and make a general offer to acquire for all the Shares not already owned by them; or (ii) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the independent shareholders and is granted by the Executive before the date of completion of the conversion.

We noted that the Company is protected by the mechanism to ensure the number of the Conversion Shares issued will not result in its breach of the Public Float Requirement under the Listing Rules and/or ensuring it is in compliance with the Takeovers Code.

Cash settlement option clause

We also note that the terms of the Convertible Bonds allow the Company to have an option, in the event that the issue of Shares upon exercise of the conversion rights under the Convertible Bonds would result in breach of the Company’s obligations of the Public Float Requirement under the Listing Rules, to pay to the relevant Bondholder an amount of cash in HK dollars equal to the cash settlement amount (the “**Cash Settlement Amount**”) in order to satisfy such conversion right, in full or in part as determined at the sole discretion of the Company (and if settled in part by cash, the balance shall be satisfied by the delivery of Shares) (the “**Cash Settlement Option**”) such that the Public Float Requirement would be met upon exercise of the conversion rights under the Convertible Bonds. The Cash Settlement Amount consists of the product of a (i) the number of Shares otherwise deliverable upon exercise of the conversion right in respect of the Convertible Bond(s) to which the conversion notice applies, and in respect of which the Company has elected the Cash Settlement Option; and (ii) the average of the closing price of the Shares for each day

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

during the five (5) consecutive trading days immediately after the date of the notice given by the Company to the relevant Bondholder(s) informing its intention to exercise the Cash Settlement Option.

The Cash Settlement Option provides the Company with an alternative to pay a Bondholder in cash if the issue of any Conversion Shares to the Bondholder upon the exercise of the Convertible Bonds will result in the Company breaching its obligations under the Listing Rules. Furthermore, the Cash Settlement Amount is determined based on the prevailing market prices of the Shares when the Company chooses to give the notice to the Bondholder informing its intention to exercise the Cash Settlement Option. We have discussed with the Management and were given to understand that the Management considers this clause is fair and reasonable because (i) the Company can only exercise the Cash Settlement Option when there would be a breach of the Public Float Requirement under the Listing Rules to the Company as a result of the exercise of the conversion rights attaching to the Convertible Bonds and issue of the Conversion Shares; (ii) it is reasonable to compensate the Bondholder only when the exercise of the conversion rights attaching to the Convertible Bonds would result in the Company breaching its obligation of the Public Float Requirement under the Listing Rules; and (iii) in the event that the Cash Settlement Option needs to be exercised by the Company, the Board will make an assessment immediately prior to the Company serving the Cash Settlement Option notice to the Bondholder(s), and the Directors who have material interest in such Cash Settlement Option at the material time will abstain from voting at the board meeting. We consider that the Cash Settlement Option is a mechanism which is entirely exercisable at the Company's discretion. Therefore, we concur with the Directors' view that the Cash Settlement Option clause is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the above analysis, we are of the view that the terms of the Convertible Bonds are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

7. Financial effects of the Subscription

Effects on earnings

Since the Convertible Bonds are non-interest bearing, the Company will not incur any interest charges. Save for the expenses relating to the professional advisory fees and ancillary costs to be incurred by the Company in relation to the issue of the Convertible Bonds, there will be no immediate material impact on the earnings of the Group in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Effects on net asset value

Based on the 2019 Annual Report, the consolidated net assets value of the Company attributable to the Shareholders was approximately HK\$833.1 million as at 31 December 2019. The net proceeds from the issue of the Convertible Bonds are estimated to be approximately HK\$49.4 million. Completion of the Subscription would lead to an increase in cash and bank balances of the Company by the same amount. As advised by the Management and based on the accounting policies of the Group, the non-current liabilities and the convertible equity reserve of the Company will be increased respectively as a result of the recognition of liability and equity components of the Convertible Bonds. It is expected that the net asset value of the Company will improve upon the issue of the Convertible Bonds, as the increase in cash and bank balances is expected to be higher than the increase in liability component of the Convertible Bonds, given that certain portion would be allocated to the equity component of the Convertible Bonds. The exact amount of the respective fair value of the liability and equity components of the Convertible Bonds and their financial impacts to the Company will be subject to the review by the auditors of the Company and/or the assessment and valuation by a professional valuer at the time of completion of the Subscription.

Effects on gearing ratio

As set out in the 2019 Annual Report, the gearing ratio of the Group as at 31 December 2019 (calculated as net debt divided by an aggregate amount comprising capital and net debt) was approximately 36.3%. Net debt includes interest-bearing bank borrowings, other borrowings, less cash and bank balances while capital represents total equity. As the Group's net assets value are expected to increase by the amount of net proceeds from the Subscription, it is therefore expected that the gearing level and capital structure of the Group will improve upon Completion and assuming full conversion of the Convertible Bonds.

The aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be after the Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

8. Shareholding structure of the Company

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon conversion of the Convertible Bonds not resulting in the Subscriber and the parties acting concert with it exceeding 2% creeper rule under Rule 26.1 of the Takeover Code; and (iii) upon full conversion of the Convertible Bonds (on the assumptions that the Convertible Bonds are converted at the initial Conversion Price being HK\$0.22 and there is no other change in the total number of issued Shares from the Latest Practicable Date up to the date of full conversion of the Convertible Bonds):

| | As at the Latest Practicable Date | | Upon conversion of the Convertible Bonds not resulting the Subscriber and the parties acting concert with him exceeding 2% creeper rule under Rule 26.1 of the Takeovers Code | | Upon full conversion of the Convertible Bonds (Note 1) | |
|--|-----------------------------------|---------------------------|---|---------------------------|--|---------------------------|
| | Number of Shares | Approximate % (Note 2) | Number of Shares | Approximate % (Note 2) | Number of Shares | Approximate % (Note 2) |
| Subscriber and parties acting in concert | | | | | | |
| Mr. Ng (Notes 3 and 4) | 11,133,264 | 3.70 | 11,133,264 | 3.58 | 11,133,264 | 2.11 |
| Uni-Spark (Notes 3 and 4) | 7,178,761 | 2.38 | 7,178,761 | 2.31 | 7,178,761 | 1.36 |
| Fung Shing (Note 3) | 23,526,030 | 7.81 | 23,526,030 | 7.56 | 23,526,030 | 4.45 |
| Parkfield (Note 3) | 44,623,680 | 14.81 | 44,623,680 | 14.33 | 44,623,680 | 8.44 |
| Ronastar (Note 3) | 1,999,872 | 0.66 | 1,999,872 | 0.64 | 1,999,872 | 0.38 |
| The Subscriber (Note 3) | — | — | 10,100,000 | 3.24 | 227,272,727 | 43.00 |
| Mr. Paul Ng (Note 5) | 11,700,000 | 3.88 | 11,700,000 | 3.76 | 11,700,000 | 2.21 |
| Ms. Cheung Choi Ngor (Notes 4 and 6) | 12,300,311 | 4.08 | 12,300,311 | 3.95 | 12,300,311 | 2.33 |
| Mr. Richard Howard Gorges (Note 6) | 5,000,000 | 1.66 | 5,000,000 | 1.61 | 5,000,000 | 0.95 |
| Sub-total | 117,461,918 | 38.98 | 127,561,918 | 40.98 | 344,734,645 | 65.23 |
| Hon. Raymond Arthur William Sears, Q.C. (Note 4) | 53,000 | 0.02 | 53,000 | 0.02 | 53,000 | 0.01 |
| Other public Shareholders | 183,762,152 | 61.00 | 183,762,152 | 59.00 | 183,762,152 | 34.76 |
| Total: | 301,277,070 | 100.00 | 311,377,070 | 100.00 | 528,549,797 | 100.00 |

Notes:

1. This column demonstrates the scenario where (i) the Subscriber and parties acting in concert with it, taken together, will directly or indirectly, make a mandatory offer obligation under Rule 26 of the Takeovers Code; or (ii) a whitewash waiver to waive the requirement for the Subscriber and parties acting in concert with it to make the mandatory general offer will be approved by the independent shareholders and will be granted by the Executive upon the conversion.
2. Certain percentages above have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.
3. Uni-Spark, Fung Shing, Parkfield, Ronastar and the Subscriber are wholly-owned by Mr. Ng. As such, Mr. Ng is the beneficial owner of the Shares held by such companies.
4. Mr. Ng, Ms. Cheung Choi Ngor and Hon. Raymond Arthur William Sears, Q.C. are Directors.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Mr. Paul Ng is the son of Mr. Ng.
6. Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges are directors of Uni-Spark.

As shown in the table above, assuming that there is no other change in the total number of issued Shares from the Latest Practicable Date up to the date of full conversion of the Convertible Bonds, the shareholding in the Company held by existing public Shareholders will be diluted from approximately 61.00% as at the Latest Practicable Date to approximately 59.00%, representing a dilution of approximately 2.00%, immediately upon conversion of the Convertible Bonds that will result in the Subscriber and the parties acting concert with it not exceeding 2% creeper rule under Rule 26.1 of the Takeover Code.

Under the scenario where there is a full conversion of the Convertible Bonds, the shareholding in the Company held by existing public Shareholders will be diluted from approximately 61.00% as at the Latest Practicable Date to approximately 34.76% immediately upon conversion of the Convertible Bonds, representing a dilution of approximately 26.24%. We nonetheless note that under the existing terms of the Convertible Bonds, the number of Conversion Shares to be issued pursuant to the conversion shall be limited to the maximum number of Shares issuable by the Company which would not result in the Subscriber triggering the Takeovers Code unless such conversion is complied with or waived in accordance to the Takeovers Code, therefore the scenario is presented purely for illustration purposes.

Having considered that (i) the Convertible Bonds is the preferred option over other equity and debt financing alternatives; (ii) the terms of the Subscription Agreement and the Convertible Bonds are fair and reasonable as far as the Independent Shareholders are concerned; and (iii) the conversion of the Convertible Bond will be subject to the Conversion Restrictions, we are of the view that the dilution to the shareholding of the existing public Shareholders is acceptable.

RECOMMENDATION

In view of the above and having considered in particular that:

- (i) the reasons for the issue of the Convertible Bonds as discussed in the section headed “3. Reasons for and benefits of the issue of the Convertible Bonds” above;
- (ii) the issue of the Convertible Bonds is an appropriate financing method currently available to the Group due to the reasons set forth under the paragraph headed “Other financing alternatives considered by the Company” above;
- (iii) the interest rate, term of maturity, Conversion Price of the Convertible Bonds fall within the range of the Comparable Issues as well as the Connected Comparable Issues;
- (iv) the other major terms of the Convertible Bonds are generally in line with market practice; and
- (v) the potential dilution effect to the shareholding interest of the public Shareholders arising from the Subscription is acceptable,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

we are of the opinion that although the entering into of the Subscription Agreement was not in the ordinary and usual course of business of the Group, the Subscription Agreement and all transactions contemplated thereunder, the issue of the Convertible Bonds in accordance with the Subscription Agreement and obtaining the Specific Mandate are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution approving the Subscription Agreement and all transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Opus Capital Limited

Koh Kwai Yim Kelly Hui
Managing Director Director

Ms. Koh Kwai Yim is the Managing Director of Opus Capital Limited and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Ms. Koh has over 18 years of corporate finance experience in Asia and has participated in and completed various financial advisory and independent financial advisory transactions.

Ms. Kelly Hui is the Director of Opus Capital Limited and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) and a representative to conduct Type 1 (dealing in securities) regulated activities. Ms. Hui has over 10 years of corporate finance experience and has participated in and completed various initial public offering, financial advisory and independent financial advisory transactions.

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS

(a) Directors' and chief executives' interests in the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company and their respective associates 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 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 the Director or chief executive of the Company was taken or is deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name of Director | Nature of interest | Number of Shares | Approximate percentage of issued share capital of the Company as at the Latest Practicable Date (%) |
|--|--|---------------------|--|
| | | | |
| Mr. Ng | Interest of a controlled corporation (<i>Note 1</i>) | 77,328,343 | 25.66 |
| | Beneficial owner | 11,133,264 | 3.70 |
| Ms. Cheung Choi Ngor | Beneficial owner | 12,300,311 | 4.08 |
| Hon. Raymond Arthur William Sears, Q.C. | Interest of spouse (<i>Note 2</i>) | 53,000 | 0.02 |

Notes:

1. Uni-Spark, Fung Shing, Parkfield and Ronastar, which held 7,178,761 Shares, 23,526,030 Shares, 44,623,680 Shares and 1,999,872 Shares, respectively, as at the Latest Practicable Date, were wholly-owned by Mr. Ng.
2. Under the SFO, Hon. Raymond Arthur William Sears, Q.C. is deemed to be interested in the 53,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and their respective associates had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which was required to be (i) 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 he was taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, entered in the register referred to therein; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

(b) Substantial Shareholders and other persons' interests and short positions in Shares and underlying Shares

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons (other than Directors and chief executive of the Company) had or deemed or taken to have an interest or a short position in the Shares and/or 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:

| Name of entity/person | Number of Shares | Capacity | Approximate % of interest |
|------------------------------|-----------------------------|------------------------------------|--------------------------------------|
| Parkfield | 44,623,680 | Beneficial owner | 14.81 |
| Fung Shing | 23,526,030 | Beneficial owner | 7.81 |
| Ms. Ng Lai King Pamela | 88,461,607 | Interest of spouse (<i>Note</i>) | 29.36 |

Note: Under the SFO, Ms. Ng Lai King Pamela, being the spouse of Mr. Ng, is deemed to be interested in the 88,461,607 Shares.

Save as disclosed above, so far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, there was no person (other than a Director or chief executive of the Company) or deemed or taken to have who had an interest or a short position in the Shares and/or underlying Shares (including interest in options, if any) of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save for the Subscription Agreement, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group. As at the Latest Practicable Date, none of the Directors had any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up.

4. COMPETING INTERESTS

The Company and South China Assets Holdings Limited (“SCAH”), a company listed on GEM of the Stock Exchange, have certain common directors. The principal activities of SCAH include property investment and development in the PRC, money lending, provision of investment advisory and asset management services and dealing in securities.

Mr. Ng, Ms. Cheung Choi Ngor and Ms. Jessica Ng, all being executive Directors, are also executive directors of SCAH. Mr. Richard Howard Gorges, a former Director resigned on 12 November 2015, is an executive director of SCAH. Mr. Ng is also the chairman of the board and the controlling shareholder of SCAH. Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges are the directors and substantial shareholders of a controlled corporation of Mr. Ng which currently holds approximately 10.29% interest in SCAH directly and approximately 9.74% indirect interest in SCAH through its wholly owned subsidiary. Mr. Ng together with his associates currently hold approximately 64.92% interest in SCAH.

The Group undertakes a wide range of financial services businesses of sizable scale in operations and with solid client portfolio while SCAH is in the course of diversifying into the financial services businesses.

The above mentioned common directors declare their interests in competing business and abstain from voting in transactions in which the Company and SCAH compete or is likely to compete with each other and, therefore, do not control the Board as far as transaction in relation to competing business is concerned. As such, the Board is independent from the board of SCAH, which consists of eight (8) members to the best of the knowledge of the Directors, and the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of SCAH. Given the difference in business focus as referred to in the preceding paragraph, the competition between the businesses of the Company and SCAH is considered to be relatively remote.

Save as disclosed above and other than being appointed as directors to represent the interests of the Company and/or the Group, none of the Directors or their respective associates had interest in business which compete or is likely to compete, either directly or indirectly, with the businesses of the Group as at the Latest Practicable Date.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any of its subsidiaries or associated companies which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. LITIGATION

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

7. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, had been entered into by members of the Group after the date falling two years prior to the issue of this circular and up to the Latest Practicable Date and which are or may be material:

- (i) the sale and purchase agreement dated 23 July 2018 and entered into among the Company, as purchaser, Orient Victory Travel Group Company Limited, an independent third party and as vendor, and King Link Investments Limited, as the target company, in respect of the acquisition of 85% of the entire issued share capital of King Link Investments Limited, a company then indirectly owned by Mr. Ng as to approximately 15%, at a cash consideration of HK\$4,800,000;
- (ii) the sale and purchase agreement dated 1 February 2019 and entered into among the Company, as vendor, and South China Industries (BVI) Limited (a direct wholly-owned subsidiary of South China Holdings Company Limited, a company listed on the Main Board of the Stock Exchange and was indirectly beneficially owned by Mr. Ng as to more than 30%), as purchaser, in respect of the sale of the entire interest in Year Blossom Limited (“**Year Blossom**”) at cash consideration of US\$1, subject to, among others, completion of change of the direct ownership of the entire equity interest in 南京華鑫餐飲管理有限公司 from 南京華鑫投資管理有限公司 (an indirect wholly-owned subsidiary of the Company) to Year Blossom;
- (iii) the underwriting agreement dated 3 July 2019 and entered into between the Company as issuer and Uni-Spark as underwriter in relation to the underwriting arrangement in respect of the Rights Issue;
- (iv) the placing agreement dated 3 July 2019 and entered into between the Company and Opus Capital Limited as placing agent in relation the placing of the unsubscribed rights shares and the rights shares which would otherwise have been provisionally allotted to non-qualifying shareholders in nil-paid form that have not been sold by the Company to the independent third party(ies) on a best effort basis; and
- (v) the Subscription Agreement.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in the section headed “Reasons for and benefits of the issue of the Convertible Bonds and use of proceeds” in the Letter from the Board, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. QUALIFICATIONS AND CONSENT OF EXPERT

The following sets out the qualifications of the expert who has given its opinion or advice as contained in this circular:

| Name | Qualification |
|----------------------|--|
| Opus Capital Limited | A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

As at the Latest Practicable Date, the above expert did not have any shareholding in the Company or any other member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.

As at the Latest Practicable Date, the above expert had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2019 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.

The above expert had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.

10. MISCELLANEOUS

- (i) The registered office of the Company is at 28/F., Bank of China Tower, 1 Garden Road, Central, Hong Kong.
- (ii) The share registrar of the Company is Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong.
- (iii) The company secretary of the Company is Mr. Watt Ka Po James, who is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.
- (iv) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company’s office at 28/F., Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours on any weekday other than public holidays, from the date of this circular up to and including the date of the EGM:

- (a) the articles of association of the Company;
- (b) the material contracts (including the Subscription Agreement) as referred to in the paragraph headed “7. Material contracts” in this Appendix;
- (c) the written consent of expert referred to in the paragraph headed “9. Qualifications and consent of expert” in this Appendix;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 26 and 27 in this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out on pages 28 to 59 in this circular; and
- (f) this circular.



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 619)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of South China Financial Holdings Limited (the “**Company**”) will be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 2 June 2020 at 10:00 a.m. to consider and, if thought fit, pass the following resolution as ordinary resolution:

ORDINARY RESOLUTION

“THAT

- (a) the subscription agreement (the “**Subscription Agreement**”) dated 7 April 2020 entered into between the Company as issuer and Total Grace Investments Limited as subscriber (the “**Subscriber**”) (a copy of which marked “A” is produced to the EGM and signed by the chairman of the EGM for identification purposes) in relation to the subscription of the convertible bonds in an aggregate principal amount of HK\$50,000,000 (the “**Convertible Bonds**”) to be issued by the Company and all transactions contemplated thereunder and in connection therewith, be and are hereby approved, confirmed and ratified;
- (b) subject to and conditional upon the listing committee approving the listing of, and granting the permission to deal in, the Conversion Shares (as defined below), the directors of the Company (the “**Directors**”) be and are hereby authorised to:
 - (i) issue the Convertible Bonds to the Subscriber; and (ii) allot and issue such shares of the Company which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Bonds (the “**Conversion Shares**”) on the terms and subject to the conditions of the Convertible Bonds;
- (c) an unconditional specific mandate granted to the Directors to exercise the powers to allot, issue and deal with such number of Conversion Shares as may be required to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds pursuant to the terms of the Convertible Bonds be and is hereby confirmed and approved; and

NOTICE OF EGM

- (d) subject to and conditional upon the fulfilment of the conditions in the Subscription Agreement, any one or more Directors be and is/are hereby authorised to, for and on behalf of the Company, execute all such documents, instruments and agreements, and take such action, do all such acts or things, as he/she/they may, in his/her/their absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect or completion of any matters relating to the Subscription Agreement and all transactions contemplated thereunder.”

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

Hong Kong, 15 May 2020

Registered office:
28th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares and entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the offices of the Company's Hong Kong share registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 48 hours before the time of the meeting or any adjourned meeting.
3. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 28 May 2020 to Tuesday, 2 June 2020 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with Union Registrars Limited, the

NOTICE OF EGM

share registrar of the Company in Hong Kong, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 27 May 2020.

6. A form of proxy for use at the EGM is enclosed with the circular to the shareholders of the Company.
7. The ordinary resolution set out above will be determined by way of a poll.
8. To safeguard the health and safety of the shareholders of the Company and to prevent the spreading of the COVID-19 pandemic, certain precautionary measures will be implemented at the EGM, including (1) compulsory temperature screening/checks; (2) wearing of surgical face mask; and (3) no provision of refreshments or drinks or souvenir. Attendees who do not comply with the precautionary measures referred to in (1) and (2) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. For the health and safety of the shareholders of the Company, the Company would like to encourage shareholders of the Company to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.
9. As at the date of this notice, the board of Directors comprises Mr. Ng Hung Sang, Ms. Cheung Choi Ngor and Ms. Ng Yuk Mui Jessica as executive Directors and Hon. Raymond Arthur William Sears, Q.C., Mrs. Tse Wong Siu Yin Elizabeth and Mr. Tung Woon Cheung Eric as independent non-executive Directors.