

**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 a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sheng Yuan Holdings Limited, you should at once hand this circular and the accompanying form of proxy 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 the transferee.

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**盛源控股有限公司**

**SHENG YUAN HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 851)**

**(1) CONNECTED TRANSACTION PROPOSED  
CONVERTIBLE BONDS ISSUANCE UNDER SPECIFIC MANDATE  
(2) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL  
OF THE COMPANY  
(3) BUSINESS PLAN OF THE COMPANY  
(4) DELINEATION OF BUSINESS BETWEEN THE GROUP AND  
THE YUANYIN GROUP  
AND  
(5) NOTICE OF SPECIAL GENERAL MEETING**

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



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

A letter from the Board is set out on pages 7 to 48 of this circular. A letter from the Independent Board Committee including its advice to the Independent Shareholders is set out on pages 49 to 50 of this circular. A letter from Gram Capital including its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 51 to 64 of this circular.

A notice convening the SGM to be held at 26F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong on Friday, 14 May 2021 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is also enclosed herewith. Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

**PRECAUTIONARY MEASURES FOR THE SGM**

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 SGM:

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

Attendees who do not comply with the precautionary measures referred to in (1) to (2) above may be denied entry to the SGM venue, at the absolute discretion of the Company as permitted by law.

**For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the SGM by appointing the chairman of the SGM as their proxy and to return their proxy forms by the time specified above, instead of attending the SGM in person.**

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## DEFINITIONS

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

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code and “concert party” shall be construed accordingly
“Asset Management Business”	the provision of asset management services by the Group in relation to the provision of discretionary account management and fund management services for individual and corporate clients
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of the Convertible Bonds
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“Capital Reduction”	the proposed reduction of the issued share capital of the Company, whereby the par value of all the issued existing Shares shall be reduced from HK\$0.05 each to HK\$0.01 each by cancelling the paid-up capital of the Company to the extent of HK\$0.04 on each of the existing Shares in issue
“Capital Reorganization”	collectively, the Capital Reduction and the Share Subdivision
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Sheng Yuan Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange (Stock Code: 851)
“Completion”	completion of the transactions contemplated under the Subscription Agreement
“Conversion Price”	the conversion price of HK\$0.03 per Conversion Share subject to adjustment in the manner provided in the instrument to be executed by the Company pursuant to the terms of the Subscription Agreement
“Conversion Shares”	the Shares to be issued upon the conversion of the Convertible Bonds
“Convertible Bonds Issuance”	the proposed issuance of the Convertible Bonds by the Company to Yuanyin Holdings

## DEFINITIONS

“Convertible Bonds”	the convertible bonds due 2023 in the aggregate principal amount of HK\$150 million at the interest rate of 1% per annum proposed to be issued by the Company under the Convertible Bond Issuance
“DCM”	debt capital market
“Deed of Non-Competition Undertakings”	the deed of non-competition undertakings to be entered into by Yuanyin Holdings in favour of the Company upon the Completion
“Director(s)”	the director(s) of the Company
“ECM”	equity capital market
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“FRR”	Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Zhang Jinfan, Ms. Wen Han Qiuzi and Ms. Huang Qin, to advise the Independent Shareholders with regard to the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a corporation licensed under the SFO to conduct Type 6 regulated activities, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of, among other things, the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate

## DEFINITIONS

“Independent Shareholder(s)”	Shareholders other than the Subscriber and parties acting in concert with it and their respective associates and those who are interested in the Subscription Agreement, the transactions contemplated thereunder and the Specific Mandate and those who are required under the Listing Rules and/or the Takeovers Code (as the case may be) to abstain from voting at the SGM
“Last Trading Day”	31 March 2021, being the last Trading Day prior to the date of the Subscription Agreement
“Latest Practicable Date”	23 April 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Transfer of Businesses”	the proposed transfer of the remaining operations of the Regulated Activities of Yuanyin Licensed Entities, which primarily involves (i) the recruitment of key management team from the Yuanyin Licensed Entities by the Group; and (ii) the transfer of clients of YSL and YAML to SYS and SYAM, the licensed subsidiaries of the Company, respectively
“Regulated Activities”	the regulated activities under the SFO
“RO(s)”	registered officer(s)
“Restricted Business”	the core businesses of Group (being the provision of securities brokerage and financial services, asset management services)
“RMB”	Renminbi, the lawful currency of the PRC

## DEFINITIONS

“Securities Brokerage and Financial Services Business”	the provision of securities brokerage and financial services by the Group in relation to the provision of (i) underwriting and placing services; (ii) securities and futures brokerage services; (iii) margin financing and money lending business; (iv) financial advisory services; and (v) custodian services
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened on Friday, 14 May 2021 and any adjournment, to consider, and if thought fit, pass the resolution in relation to the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and Share Capital Increase
“Share Capital Increase”	the proposed increase in the authorized share capital of the Company from HK\$400,000,000 divided into 8,000,000,000 Shares to HK\$600,000,000 divided into 12,000,000,000 Shares by the creation of additional 4,000,000,000 Shares
“Share Subdivision”	the proposed subdivision of each of the authorised but unissued existing Shares of par value of HK\$0.05 each into five (5) Shares of par value of HK\$0.01 each
“Share(s)”	the existing share(s) with a par value of HK\$0.05 each share in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder’s Loan”	a shareholder’s loan in the principal amount of HK\$99.8 million at the interest rate of 5% per annum with a maturity date of 22 January 2023 owed by the Group to Yuanyin Finance as at the Latest Practicable Date
“Shareholder’s Loan Agreement”	the facility agreement dated 22 March 2019 entered into between the Company and Yuanyin Finance (as amended by its amendment agreements) in relation to the Shareholder’s Loan
“Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the SGM for the allotment and issuance of the Conversion Shares

## DEFINITIONS

“Subscriber” or “Yuanyin Holdings”	Yuanyin Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which, together with its subsidiaries, was interested in 1,030,170,000 Shares, representing approximately 26.97% of the total issued share capital of the Company as at the Latest Practicable Date
“Subscription”	the Subscription of the Convertible Bonds by the Subscriber pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 1 April 2021 in respect of the subscription of the Convertible Bonds entered into between the Company and the Subscriber
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SYAM”	Sheng Yuan Asset Management Limited, a company incorporated in Hong Kong with limited liability, licensed to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, and an indirect wholly-owned subsidiary of the Company
“SYC”	Sheng Yuan Capital (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, and an indirect wholly-owned subsidiary of the Company
“SYS”	Sheng Yuan Securities Limited, a company incorporated in Hong Kong with limited liability, licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO, and an indirect wholly-owned subsidiary of the Company
“Takeovers Code”	the Codes on Takeovers and Mergers of Hong Kong
“Trading Day”	a day on which trading of the Shares is conducted on the Stock Exchange in accordance with the rules and regulations of the Stock Exchange promulgated from time to time

## DEFINITIONS

“Whitewash Waiver”	a waiver to be applied by the Company pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscriber to make a mandatory general offer for all the Shares not already owned by the Subscriber and parties acting in concert with it under Rule 26.1 of the Takeovers Code, which may otherwise arise as a result of the conversion of the Convertible Bonds by the Subscriber from time to time
“YAML”	Yuanyin Asset Management Limited, a company incorporated in Hong Kong with limited liability, licensed to carry out type 4 (advisory on securities) and type 9 (asset management) regulated activities under the SFO, and an indirect wholly-owned subsidiary of Yuanyin Holdings
“Yuanyin Finance”	Yuanyin Finance Limited, a company with limited liability incorporated under the laws of Hong Kong and a wholly-owned subsidiary of Yuanyin Holdings
“Yuanyin Group”	Yuanyin Holdings and its subsidiaries
“Yuanyin Licensed Entities”	collectively, YSL and YAML, both are licensed to carry out the Regulated Activities, and are indirect wholly-owned subsidiaries of Yuanyin Holdings
“YSL”	Yuanyin Securities Limited, a company incorporated in Hong Kong with limited liability, licensed to carry out type 1 (dealing in securities) and type 4 (advisory on securities) regulated activities under the SFO, and an indirect wholly-owned subsidiary of Yuanyin Holdings
“%”	per cent



LETTER FROM THE BOARD



**盛源控股有限公司**

SHENG YUAN HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 851)**

*Executive Directors:*

Mr. Liu Yang  
Mr. Zhou Quan  
Mr. Zhao Yun

*Non-executive Director:*

Mr. Huang Shuanggang

*Independent non-executive Directors:*

Mr. Zhang Jinfan  
Ms. Wen Han Qiuzi  
Ms. Huang Qin

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal place of business  
in Hong Kong:*

26/F  
238 Des Voeux Road Central  
Sheung Wan  
Hong Kong

29 April 2021

*To the Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION PROPOSED  
CONVERTIBLE BONDS ISSUANCE UNDER SPECIFIC MANDATE  
(2) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL  
OF THE COMPANY  
(3) BUSINESS PLAN OF THE COMPANY  
(4) DELINEATION OF BUSINESS BETWEEN THE GROUP AND  
THE YUANYIN GROUP  
AND  
(5) NOTICE OF SPECIAL GENERAL MEETING**

**A. INTRODUCTION**

Reference is made to the announcement dated 1 April 2021, in relation to, among other things, the entering into the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate, the Share Capital Increase, the Business Plan of the Company and the delineation of businesses between the Group and the Yuanyin Group.

## LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with, among other things, (i) information relating to the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate, the Share Capital Increase, the Business Plan of the Company and the delineation of businesses between the Group and the Yuanyin Group; (ii) the recommendation from the Independent Board Committee on the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate; (iii) the advice from Gram Capital on the Subscription Agreement, the transactions contemplated thereunder and the Specific Mandate; and (iv) the notice of the SGM.

### **B. CONNECTED TRANSACTION — THE CONVERTIBLE BONDS ISSUANCE**

On 1 April 2021, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds due 2023 in the aggregate principal amount of HK\$150 million at the interest rate of 1% per annum.

#### **1. The Subscription Agreement**

The principal terms of the Subscription Agreement are set out below:

##### *Date*

1 April 2021

##### *Parties*

- (a) the Company (as issuer); and
- (b) Yuanyin Holdings (as subscriber).

##### *Subject matter*

Subject to the fulfilment (or waiver, if applicable) of the conditions under the Subscription Agreement, details of which are set out in the sub-section headed “Conditions Precedents to the Subscription”, the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds due 2023 in the aggregate principal amount of HK\$150 million at the interest rate of 1% per annum.

As at the Latest Practicable Date, the Company had 3,819,705,413 Shares in issue. Based on the initial conversion price of HK\$0.03 per Conversion Share, the Convertible Bonds may be convertible into a total of 5,000,000,000 Conversion Shares, representing approximately 130.90% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 56.69% of the issued share capital of the Company as enlarged by the issuance of the Conversion Shares, respectively.

## LETTER FROM THE BOARD

### *Conditions Precedents to the Subscription*

Completion is conditional upon the fulfilment (or waiver, if applicable) of the following conditions:

- (i) the passing of all resolutions by the Independent Shareholders (where applicable) at the SGM required under the Listing Rules to approve the Specific Mandate, the entering into of the Subscription Agreement and the transactions contemplated thereunder and the Share Capital Increase by way of poll;
- (ii) all issued Shares remaining listed on, and not having been withdrawn from, the Stock Exchange;
- (iii) the Company having received approval (either unconditionally or subject to conditions) from the Listing Committee for the listing of, and permission to deal in, the Conversion Shares;
- (iv) the representations and warranties under the Subscription Agreement being true, accurate and correct in all material aspects and not misleading in any material aspects as at the date of Completion;
- (v) all authorizations (if any) which are required from the relevant courts, governmental authorities in Hong Kong, the PRC, the British Virgin Islands and Bermuda for the Subscription Agreement and the transactions contemplated thereunder having been granted, fulfilled or given (as applicable);
- (vi) the Company having performed all agreements, obligations, covenants as set out in the Subscription Agreement required to be performed or observed by the Company on or prior to the Completion Date in all material respects;
- (vii) since the date of the Subscription Agreement, (a) no applicable laws having been promulgated or enacted that materially delays or makes illegal the performance of the Subscription Agreement, (b) no applicable injunction, restraining order or order of similar nature by a governmental authority that materially delays or makes illegal the performance of the Subscription Agreement having been effective and (c) no applicable governmental authority having instituted any claim, suit, action, arbitration, investigation or other legal or administrative proceeding against or affecting the Company that seeks to materially delay or make illegal the performance of the Subscription Agreement; and
- (viii) there having not been an insolvency event as stipulated in the Subscription Agreement.

## LETTER FROM THE BOARD

The Subscriber may at any time waive all or any of the conditions precedents to the Subscription either in whole or in part and conditionally or unconditionally by giving notice in writing to the Company, other than conditions (i), (ii) and (iii) which cannot be waived.

### ***Completion***

Completion shall take place on the 10th Business Day (or such shorter period agreed by the Subscriber) after the fulfillment or waiver by the Subscriber of the conditions precedents to the Subscription as further described above or at such other time as the Company and the Subscriber may mutually agree upon.

Upon Completion, the total subscription price of the Convertible Bonds in the total amount of HK\$150 million will be satisfied (i) as to HK\$99.8 million by setting off against the Company's obligation to repay the outstanding principal amount of the Shareholder's Loan owed by the Group to Yuanyin Finance; and (ii) as to HK\$50.2 million being settled by cash in HK\$.

### ***Settlement of Principal Amount of the Shareholder's Loan***

As at the Latest Practicable Date, Yuanyin Finance (a wholly-owned subsidiary of Yuanyin Holdings) had granted the Shareholder's Loan in the principal amount of HK\$99.8 million at the interest rate of 5% per annum to the Company, which will mature on 22 January 2023. Pursuant to the terms of the Subscription Agreement, Yuanyin Holdings shall settle the subscription price of the Convertible Bonds in the amount of HK\$99.8 million upon Completion by setting off against the principal amount of the Shareholder's Loan. The accrued interest of the Shareholder's Loan will be separately repaid by the Group to Yuanyin Finance pursuant to the terms of the facility agreement(s) in respect of the Shareholder's Loan upon maturity of the Shareholder's Loan on 21 January 2023, which can be extended to a later date as agreed by Yuanyin Finance and the Company pursuant to the terms of the facility agreement(s).

## **2. Principal Terms of the Convertible Bonds**

**Issuer** : the Company

**Principal amount** : HK\$150 million

**Status** : The Convertible Bonds constitute direct, unsecured, unconditional and unsubordinated obligations of the Company and shall at all times rank *pari passu* and without any preference among themselves and all its existing and future unsecured and unsubordinated obligations.

## LETTER FROM THE BOARD

**Conversion right** : Subject to the terms of the conditions under the Subscription Agreement, the Bondholder(s) shall have the conversion right, and upon the request by the Company the Bondholder(s) shall exercise such conversion right, to convert their Convertible Bonds into Shares credited as fully paid at any time during the conversion period of the Convertible Bonds.

**Conversion Price** : The initial conversion price will be HK\$0.03 per Conversion Share subject to adjustment in the manner provided in the instrument to be executed by the Company pursuant to the terms of the Subscription Agreement, which represents:

- (i) no premium or discount over the closing price of HK\$0.03 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 1.33% over the average closing price of approximately HK\$0.0296 per Share as quoted on the Stock Exchange over the last five Trading Days of the Shares up to and including the Last Trading Day;
- (iii) a premium of approximately 2.00% over the average closing price of approximately HK\$0.0294 per Share as quoted on the Stock Exchange over the last ten Trading Days up to and including the Last Trading Day; and
- (iv) a discount of approximately 43.40% over the closing price of HK\$0.053 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

## LETTER FROM THE BOARD

The Conversion Price was determined after arm's length negotiations between the Company and the Subscriber having regard to the prevailing market price of the Shares on the Stock Exchange. Having taken into account, among others, (i) the Conversion Price represents a premium to the market prices of the Shares over the last five and ten Trading Days before the date of the Subscription Agreement; (ii) the Conversion Price was within the range of the lowest and highest closing prices of Shares during 1 April 2020 up to and including 1 April 2021, being a period of approximately one year prior to the date of the Subscription Agreement; and (iii) the factors set out in the section headed "8. Reasons for and Benefits of the Convertible Bonds Issuance" in this circular, the Board considers that the Conversion Price is fair and reasonable.

**Adjustment to  
Conversion  
Price<sup>(1)</sup>**

: The Conversion Price shall be subject to adjustment upon occurrence of any of the following events in accordance with the respective formulae:

- (a) any alteration of the nominal value of the Shares by reason of consolidation or sub-division of Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration,

such adjustment shall become effective from the day on which such consolidation or subdivision becomes effective;

## LETTER FROM THE BOARD

- (b) any issue of Shares credited as fully paid (other than in lieu of cash dividend) by way of capitalisation of profits or reserves of the Company, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate nominal amount of the issued Shares immediately before such issue; and
- B is the aggregate nominal amount of the issued Shares immediately after such issue,

such adjustment shall become effective from the day on which such consolidation or subdivision becomes effective;

- (c) any capital distribution paid or made by the Company to the Shareholders (except where the Conversion Price falls to be adjusted under (b) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such capital distribution by the following fraction:

$$\frac{A - B}{B}$$

where:

- A is the then current market price of one Share on the last Trading Day preceding (a) the date on which the capital distribution is publicly announced or (b) (where no such announcement is required to be made under the Listing Rules) the record date of the capital distribution; and
- B is the fair market value on the date of such announcement (or, where no such announcement is required to be made under the Listing Rules, such record date) of the portion of the capital distribution attributable to one Share,

## LETTER FROM THE BOARD

such adjustment shall become effective on the date that such capital distribution is made. For the avoidance of doubt, capital distribution excludes all cash distributions paid to the Shareholders;

- (d) any issue of Shares by way of rights, options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 80.1% of the then current market price per Share on the last Trading Day preceding the date of the announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would purchase at such then current market price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant,

such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be);



## LETTER FROM THE BOARD

- (e) any issue of other securities of the Company by way of rights, or any issue or grant of options, warrants or other rights to subscribe for, purchase or otherwise acquire securities of the Company, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{B}$$

where:

- A is the then current market price of one Share on the last Trading Day preceding the date on which such issue or grant is publicly announced; and
- B is the fair market value on the date of such announcement of the portion of the rights attributable to one Share,

such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be);

- (f) any issue (otherwise than as mentioned in (d) above) of any Shares (other than Shares issued on the exercise of conversion rights or on the exercise of the options granted by the Company pursuant to its share option schemes, or any other rights of conversion into, or exchange or subscription for, Shares) or the issue or grant of (otherwise than as mentioned in (iv) above and other than the options granted by the Company pursuant to its share option schemes) options, warrants or other rights to subscribe or purchase Shares in each case at a price per Share which is less than 80.1% of the then current market price on the last Trading Day preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

**LETTER FROM THE BOARD**

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for or purchase any Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable by the Company for such additional Shares to be issued or otherwise made available or, as the case may be, upon the exercise of any such options, warrants or rights, would purchase at such then current market price per Share; and
- C is the maximum number of additional Shares issued or the maximum number of Shares that may be issued upon exercise of such options, warrants or rights,

references to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe for or purchase Shares, mean such Shares to be issued, or otherwise made available, assuming that such options, warrants or other rights are exercised in full at the initial exercise price (if applicable) on the date of issue or grant of such options, warrants or other rights. Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of such options, warrants or other rights;

## LETTER FROM THE BOARD

- (g) any issue of securities (other than the Convertible Bonds and the options granted by the Company pursuant to its share option schemes) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for or purchase of, or to otherwise acquire, Shares issued or to be issued by the Company or securities which by their terms may be redesignated Shares receivable upon conversion, exchange, subscription or redesignation at a consideration per Share which is less than 80.1% of the then current market price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such issue or grant (but where the relevant securities carry rights of conversion into, or rights of exchange or subscription for, or purchase or acquisition of, Shares which have been issued by the Company for the purposes of, or in connection with, such issue, less the number of Shares so issued);
- B is the number of Shares which the aggregate consideration (if any) receivable by the Company for the Shares to be issued or otherwise made available upon conversion or exchange or on exercise of the right of subscription or purchase or acquisition attached to such securities or, as the case may be, the Shares would purchase at such then current market price per Share; and

## LETTER FROM THE BOARD

C is the maximum number of Shares to be issued or otherwise made available upon conversion or exchange of such securities or on the exercise of such rights of subscription or purchase or acquisition attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Shares to be issued or to arise or to be made available from any such redesignation,

such adjustment shall become effective on the date of issue of such securities;

- (h) any modification of rights of conversion, exchange, subscription, purchase or acquisition attaching to any securities of the Company as are mentioned in (vii) above arising from a conversion or exchange of other existing securities of the Company so that the consideration per Share is less than 80.1% of the then current market price on the last Trading Day preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such modification (but where the relevant securities carry rights of conversion into, or rights of exchange or subscription for, or purchase or acquisition of, Shares which have been issued by the Company for the purposes of, or in connection with, such issue, less the number of Shares so issued);

## LETTER FROM THE BOARD

- B is the number of Shares which the aggregate consideration (if any) receivable by the Company for the Shares to be issued, or otherwise made available, on conversion or exchange or on exercise of the right of subscription, purchase or acquisition attached to the securities so modified would purchase at (a) such then current market price per Share or (b) the existing conversion, exchange, subscription or purchase price of such securities if such price is lower than the then current market price per Share; and
- C is the maximum number of Shares to be issued, or otherwise made available, on conversion or exchange of such securities or on the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription or purchase price or rate but giving credit in such manner as an approved financial adviser (acting as an expert), considers appropriate (if at all) for any previous adjustment under paragraphs (h) or (g) above,

such adjustment shall become effective on the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such securities;

## LETTER FROM THE BOARD

- (i) other events not referred to above including, but not limited to, corporate actions that in the Company's opinion would have an effect on the position of the Bondholder(s) as compared with the position of the holders of all other securities of the Company which are analogous to any of the above events, then, in any such case, the Company shall at its own expense request an approved financial adviser (acting as expert) to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination provided that where the circumstances giving rise to any adjustment pursuant to this anti-dilution adjustment provision have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this anti-dilution adjustment provision as may be advised by the approved financial adviser (acting as expert) to be in their opinion appropriate to give the intended result,

provided that the conversion price at which the Conversion Shares will be issued shall not in any event be lower than the then nominal value of the Shares.

**Conversion Shares** : Based on the initial Conversion Price of HK\$0.03 per Conversion Share, the Convertible Bonds may be convertible into a total of 5,000,000,000 Shares, representing approximately 130.90% of the issued share capital of the Company as at the Latest Practicable Date or approximately 56.69% of the issued share capital as enlarged by the issuance of the Conversion Shares, respectively.

**Maturity Date** : The second anniversary of the date of the issuance of the Convertible Bonds (i.e. the date of Completion), if that date is not a Business Day, the first Business Day thereafter

## LETTER FROM THE BOARD

- Interest** : 1% per annum payable by the Company annually in arrears
- Conditions precedent to Convertible Bonds Issuance** : Please refer to the condition precedents set out in the section headed “1. The Subscription Agreement - Conditions Precedents to the Subscription” in this circular.
- Conversion period** : Subject to the terms and conditions under the Subscription Agreement, the period commencing on or after the next Business Day after the issue date of the Convertible Bonds and ending on the date that falls on the 10th Business Day after the maturity date, both dates inclusive, or a longer period of time as may be agreed otherwise by the Subscriber and the Company
- Conditions to conversion** : Conversion of the Convertible Bonds is subject to the fulfilment of the following conditions precedent:
- (i) the Listing Committee having granted (either unconditional or subject only to conditions to which Yuanyin Holdings does not reasonably object) the listing of and permission to deal in, the Conversion Shares;
  - (ii) with respect to Yuanyin Holdings’ exercise of its conversion right as a Bondholder:
    - (a) the granting of the Whitewash Waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligations on Yuanyin Holdings to make a mandatory general offer for all the issued Shares other than those already owned or agreed to be acquired by Yuanyin Holdings and parties acting in concert with it as a result of the Company allotting and issuing of the Conversion Shares (if required);
    - (b) the granting of the approval from the SFC in relation to the change of substantial shareholder(s) (as defined in the SFO) of each of the licensed corporations within the Group upon the issuance of the Conversion Shares (if required); and

## LETTER FROM THE BOARD

- (iii) the public float of the Shares having not fallen below the minimum requirement under Rule 8.08(1)(a) of the Listing Rules or as required by the Stock Exchange immediately upon such conversion.

The Subscriber reserves its right as to whether or not to waive condition (ii)(a) above. If condition (ii)(a) is waived, the Subscriber will comply with the provisions of the Takeovers Code including but not limited to the making of a general offer for the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company under Rule 26.1 of the Takeovers Code.

As advised by the Company's Bermuda legal advisor, the Company may not issue Shares at a discount to the nominal value of such Shares under Bermuda law. Accordingly, the Conversion of the Convertible Bonds is also subject to completion of the Capital Reorganization to be approved by the Shareholders at a general meeting of the Company which would involve, among others, a reduction of the par value of each of the issued existing Shares from HK\$0.05 per Share to HK\$0.01 per Share.

**Redemption at maturity** : Unless previously redeemed, converted or cancelled, the Convertible Bonds shall be redeemed on the maturity date at its then outstanding principal amount.

There is no early redemption clause in the Subscription Agreement.

**Events of default** : The following events shall constitute events of default ("**Event(s) of Default**") for so long as the Convertible Bonds remain outstanding:

- (i) any failure for more than three Business Days by the Company to pay any principal, premium, interest or any other amount due in respect of the Convertible Bonds;



## LETTER FROM THE BOARD

- (ii) any failure by the Company to, or procure its share registrar to: (a) register the person or persons designated in a conversion notice as the holder(s) of the relevant number of Conversion Shares in the Company's share register; and/or (b) deliver the Conversion Shares and/or the certificate(s) for the Conversion Shares as and when the Conversion Shares are required to be delivered in accordance with the conditions within a specified period;
- (iii) the Company does not perform or comply with any covenant, condition or provision contained in the instrument to be executed by the Company pursuant to the terms of the Subscription Agreement or in the Convertible Bonds and on its part to be performed or observed which default is incapable of remedy, or if capable of remedy, is not remedied within thirty days of a Bondholder giving notice to the Company or the Company becoming aware of the breach;
- (iv) there is any breach of any applicable law, regulation or Listing Rules by the Company or any of its subsidiaries which will result in a material adverse effect;
- (v) there is any change made to the bye-laws of the Company which adversely affects a Bondholder's rights thereunder;
- (vi) (a) any other present or future indebtedness (whether actual or contingent) of the Company for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any event of default or the like (howsoever described); (b) any such indebtedness is not paid when due or (if a grace period is applicable) within any applicable grace period; or (c) the Company or any of its subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised; provided that no event described in this paragraph shall constitute an Event of Default unless the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events abovementioned have occurred equals or exceeds HK\$10,000,000 or its equivalent;

## LETTER FROM THE BOARD

- (vii) the Shares (as a class) cease to be listed or admitted to trading on the Stock Exchange or any alternative stock exchange acceptable to the Bondholder(s) except there is any transactions in accordance with Chapter 14 of the Listing Rules which requires clearance from the Stock Exchange;
- (viii) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Company or any of its material subsidiaries and is not discharged or stayed within thirty days;
- (ix) any encumbrance, present or future, created or assumed by the Company or any of its material subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of an encumbrancer) and such enforcement will result in a material adverse effect;
- (x) the Company or any of its material subsidiaries is insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Company or any of its material subsidiaries; or if an administrator or liquidator of the Company or of any of its material subsidiaries or the whole or any material part of the assets and revenues of the Company or any of its material subsidiaries is appointed (or application for any such appointment is made);

## LETTER FROM THE BOARD

- (xi) an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Company or any of its material subsidiaries, or the Company or its material subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) in the case of the Company, on terms approved by the Bondholder(s); or (b) in the case of a material subsidiary, whereby the undertaking and assets of such material subsidiary are transferred to or otherwise vested in the Company or another of its material subsidiaries;
- (xii) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company or any of its Material Subsidiaries or the Company, or any of its Material Subsidiaries is prevented from exercising normal control over all or a material part of its property, assets and turnover;
- (xiii) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Convertible Bonds; (b) to ensure that those obligations are legally binding and enforceable and (c) to make the Convertible Bonds admissible in evidence in the courts of Bermuda and/or Hong Kong, is not taken, fulfilled or done;
- (xiv) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the Convertible Bonds; or
- (xv) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

## LETTER FROM THE BOARD

If (a) the Convertible Bonds have become due and payable prior to the maturity date by reason of the occurrence of any of the Events of Default, or (b) the Convertible Bonds are not redeemed on the Maturity Date in accordance with in the instrument to be executed by the Company pursuant to the terms of the Subscription Agreement, then the conversion right attaching to the Convertible Bonds will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the bond certificate evidencing such Convertible Bonds are deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Convertible Bonds have been duly received by the Bondholders.

Therefore, in the event that the Company fails to redeem the Convertible Bonds on the maturity date at the outstanding principal amount thereof, yet the Subscriber has not converted the Convertible Bonds into the Conversion Shares within the Conversion Period, the Convertible Bonds would not be automatically converted into the Conversion Shares.

**Default Interest  
and Delay in  
Payment**

- : (i) If the Company fails to pay any sum in respect of the Convertible Bonds when the same becomes due and payable under the terms and conditions of the Convertible Bonds, interest shall accrue on the overdue sum at the rate of 10% per annum from the due date and ending on the date on which full payment is made to the Bondholder(s) in accordance with the terms and conditions of the Convertible Bonds. Such default interest shall accrue on the basis of the actual number of days elapsed and a 365-day year.
- (ii) Bondholder(s) will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, or if the Bondholder is late in surrendering its bond certificate (if required to do so).
- (iii) If an amount which is due on the Convertible Bonds is not paid in full, the Company will annotate the register of Bondholders with a record of the amount (if any) in fact paid.

## LETTER FROM THE BOARD

- Voting rights** : The Bondholder(s) will not have any right to attend or vote at any meeting of the Company by virtue of being a Bondholder, and until and unless such Bondholder(s) has converted its Convertible Bonds into Shares.
- Transferability<sup>(2)</sup>** : The Convertible Bonds may be transferred, in whole or in part (in HK\$200,000 and integral multiples of HK\$1,000 thereof), subject to prior approval of the Company, by delivery of the bond certificate issued in respect of the Convertible Bonds, with the form of transfer duly completed and signed.

*Notes:*

- (1) The Company will make announcement(s) on any adjustment to the Conversion Price pursuant to the Listing Rules.
- (2) In the event that the transfer of the Convertible Bonds shall constitute a connected transaction of the Company, the Company shall take all necessary steps to fully comply with the Listing Rules and the requirements of the Stock Exchange.

### **3. Specific Mandate for the Issuance of the Conversion Shares**

The Conversion Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the SGM.

## LETTER FROM THE BOARD

### 4. Effect on the Shareholding Structure of the Company

The table below sets out a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon full conversion of the Convertible Bonds (assuming that there will be no other change in the issued share capital of the Company):

Shareholders	As at the Latest Practicable Date		After completion of Capital Reorganization and immediately after the issue of the Conversion Shares upon full conversion of the Convertible Bonds	
	Number of Shares	Approximate %	Number of Shares	Approximate %
<i><b>Yuanyin Group</b></i>				
Yuanyin Holdings <sup>(1)(2)</sup>	1,011,000,000	26.47	6,011,000,000	68.15
Yuanyin International Limited <sup>(1)</sup>	<u>19,170,000</u>	<u>0.50</u>	<u>19,170,000</u>	<u>0.22</u>
<b>Subtotal</b>	<b><u>1,030,170,000</u></b>	<b><u>26.97</u></b>	<b><u>6,030,170,000</u></b>	<b><u>68.37</u></b>
<i><b>Public Shareholders</b></i>				
Ms. Zhao Jian Yun <sup>(3)</sup>	357,142,857	9.35	357,142,857	4.05
Mr. Shao Yong Chao <sup>(4)</sup>	300,000,000	7.85	300,000,000	3.40
Other public Shareholders	<u>2,132,392,556</u>	<u>55.83</u>	<u>2,132,392,556</u>	<u>24.18</u>
<b>Subtotal</b>	<b><u>2,789,535,413</u></b>	<b><u>73.03</u></b>	<b><u>2,789,535,413</u></b>	<b><u>31.63</u></b>
<b>Total</b>	<b><u>3,819,705,413</u></b>	<b><u>100%</u></b>	<b><u>8,819,705,413</u></b>	<b><u>100%</u></b>

*Notes:*

- (1) As at the Latest Practicable Date, the 1,030,170,000 Shares which Yuanyin Holdings was interested in under Part XV of the SFO include (i) 1,011,000,000 Shares directly held by Yuanyin Holdings; and (ii) 19,170,000 Shares indirectly held through Yuanyin International Limited (a wholly-owned subsidiary of Yuanyin Holdings).
- (2) As at the Latest Practicable Date, Yuanyin ESOP Limited held 10.75% of the shares and 37.60% of the voting rights in Yuanyin Holdings. As such, Yuanyin ESOP Limited is deemed to be interested in 1,030,170,000 Shares which Yuanyin Holdings is interested in. Mr. Liu Yang (an executive Director and the chairman of the Board) owns 100% interest in Yuanyin ESOP Limited, and therefore, is deemed to be interested in 1,030,170,000 Shares held by Yuanyin Holdings pursuant to the SFO.
- (3) Ms. Zhao Jian Yun is a PRC national and has extensive experience in investing in listed companies. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, Ms. Zhao Jian Yun is a third party shareholder independent of the Company. The Shares held by Ms. Zhao Jian Yun are considered to be in public hands in accordance with Rule 8.24 of the Listing Rules.

## LETTER FROM THE BOARD

- (4) Mr. Shao Yong Chao is a PRC national and has extensive experience in investing in listed companies. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, Mr. Shao Yong Chao is a third party shareholder independent of the Company. The Shares held by Mr. Shao Yong Chao are considered to be in public hands in accordance with Rule 8.24 of the Listing Rules.

The shareholdings of the existing public Shareholders would be diluted from approximately 73.03% of the total issued share capital of the Company as at the Latest Practicable Date to approximately 31.63% of the total issued share capital of the Company immediately after the issue of the Conversion Shares upon full conversion of the Convertible Bonds. For details of the potential dilutive effect to the public Shareholders upon full conversion of the Convertible Bonds, please refer to the table above in this section "4. Effect on the Shareholding Structure of the Company".

### **5. Use of Proceeds**

Assuming the Convertible Bonds of an aggregate principal amount of HK\$150 million are issued, the aggregate gross and net proceeds from the Convertible Bonds Issuance are expected to be HK\$150 million and HK\$149.8 million, respectively. The cash proceeds from the Convertible Bonds Issuance, after deducting the amount of HK\$99.8 million which will be applied to set off against the principal amount of the Shareholder's Loan, are estimated to be approximately HK\$50.0 million. Based on the cash proceeds of approximately HK\$150 million, the net price per Conversion Share is approximately HK\$0.03.

As the subscription price of the Convertible Bonds in the amount of HK\$99.8 million will be set off against the principal amount of the Shareholder's Loan of HK\$99.8 million owed by the Group to Yuanyin Finance, the cash proceeds (after deducting such settlement amount and all related fees and expenses) to be received by the Company from the Convertible Bonds Issuance is approximately HK\$50.0 million. The Board intends to use 100% of the cash proceeds of approximately HK\$50.0 million from the Convertible Bonds Issuance for the replenishment of the liquid capital of SYS to facilitate the resumption of its margin financing activities and further expansion of the Group's underwriting and other businesses in the future by complying with the relevant capital requirements under the FRR, as further described in the section headed "8. Reasons for and Benefits of the Convertible Bonds Issuance" in this circular.

### **6. Fund-Raising Activities by the Company in the Last 12 Months**

The Company had not raised any funds by issuing equity securities during the 12 months immediately before the Latest Practicable Date.

### **7. Application for Listing**

No application will be made by the Company to the Listing Committee for the listing of the Convertible Bonds. An application will be made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

## LETTER FROM THE BOARD

### 8. Reasons for and Benefits of the Convertible Bonds Issuance

#### *(i) The Shareholder's Loan*

As at the Latest Practicable Date, Yuanyin Finance (a wholly-owned subsidiary of Yuanyin Holdings) had granted a Shareholder's Loan in the principal amount of HK\$99.8 million at the interest rate of 5% per annum with a maturity date of 22 January 2023 to the Group.

The Board considers that the Shareholder's Loan represents a heavy financial burden to the Group as the Group recorded a net liability of approximately HK\$50.76 million as at 31 December 2020 based on the audited financial statements of the Company for the year ended 31 December 2020. In view of the above, the Board has reviewed and explored different approaches to settle the Shareholder's Loan and considered the Convertible Bonds Issuance to be the most effective and suitable approach, which can help ease the cashflow pressure and reduce the liability of the Group, and thus the net assets of the Group is expected to increase significantly after the full conversion of Convertible Bonds.

#### *(ii) Immediate fundraising and improvement of the Company's financial position*

In addition, as at the Latest Practicable Date, the capacity of SYS, an indirect wholly-owned subsidiary of the Company and a corporation licensed to conduct margin financing under the SFO, to conduct uncommitted underwriting and margin financing business was restricted by limitation of the low liquid capital.

Licensed corporations under the SFO are required under section 145 of the SFO to maintain at all times a minimum level of paid-up share capital and liquid capital not less than the specified amounts according to the FRR, depending on the types of regulated activity. SYS, which is a corporation licensed to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) Regulated Activities under the SFO and provides securities margin financing services, is required to maintain minimum paid-up share capital at the highest amounts amongst the Regulated Activities it participates in, being HK\$10,000,000.

Liquid capital is the amount by which a licensed corporation's liquid assets exceeds its ranking liabilities, where (i) liquid assets are the amount of assets held by the licensed corporation, adjusted for such factors to take into account liquidity of certain assets as well as credit risks; and (ii) ranking liabilities are the sum of liabilities on the balance sheet of the licensed corporation (including, without limitation, any amounts payable by it in respect of any overdraft or loan, any accrued interest payable to any other person, accrued expenses, taxes and provisions for contingent liabilities), adjusted for such factors to take into account market risks and contingency.



## LETTER FROM THE BOARD

The amount of (i) net underwriting commitment (being the total costs of subscribing for or purchasing securities underwritten or sub-underwritten by a licensed corporation other than (a) securities which are sub-underwritten; and (b) securities which are the subject of a legally binding contract for the subscription for or purchase of such securities, through or from that licensed corporation by another person) and (ii) receivable from margin clients shall be taken into account according to the relevant percentages (depending on the type of securities to be underwritten and the financing accommodation and collaterals provided (if any) for margin financing) as set out in the FRR when calculating the ranking liabilities. Accordingly, any increase in the net underwriting commitment or receivable from margin clients would result in an increase of a licensed corporation's on-balance sheet liabilities and a decrease of its level of liquid capital and may affect its compliance with FRR.

A licensed corporation shall maintain minimum liquid capital at all times which shall be the higher of the amount of (a) and (b) below (as applicable to SYS):

- (a) the amount of HK\$3,000,000 — in the case of a corporation licensed for type 1 (dealing in securities) or type 2 (dealing in futures contracts) Regulated Activity that is not an approved introducing agent, futures non-clearing dealer or trader; and a corporation licensed for type 4 (advising on securities) Regulated Activity which is not subject to specified licensing condition; and
- (b) its variable required liquid capital, meaning the basic amount which is 5% of the aggregate of:
  - (i) the licensed corporation's on-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities but excluding certain amounts stipulated in the definition of "adjusted liabilities" under the SFO;
  - (ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and
  - (iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to the requirement of payment of initial margin requirement.

If the licensed corporation applies for more than one type of Regulated Activity, the minimum paid-up share capital and liquid capital that the corporation should maintain shall be the higher or the highest amount required amongst those regulated activities applied for. As at 31 March 2021, the variable required liquid capital for SYS is approximately HK\$47,000 pursuant to the FRR. Accordingly, the minimum liquid capital applicable to SYS as at 31 March 2021 is HK\$3,000,000,

## LETTER FROM THE BOARD

being the higher of the amount of (a) and (b) above under the FRR. Based on the current financial position of SYS, SYS only meets the minimum liquid capital for maintaining the securities brokerage services, uncommitted underwriting and placing services, as well as maintaining sufficient cash for its daily operations, but cannot conduct further margin financing effectively as any provision of such would increase SYS's ranking liabilities and in turn decrease its liquid capital. Furthermore, SYS has been heavily restricted from acting as the underwriter for fund-raising exercises that require committed subscription given the liquid capital requirement pursuant to the FRR as described above. As a result of the low level of liquid capital, SYS has been unable to act as underwriter for some sizable fund-raising activities since 2018, as the provision of underwriting services with no full funding/binding commitment from clients would significantly increase its level of ranking liabilities, and hence significantly decrease its liquid capital, resulting in potential non-compliance with FRR requirements. In addition, the net liability position of the Group as mentioned above has seriously impaired its ability to seek bank financing.

Accordingly, the Group is in urgent need of cash funding in order to ease these restrictions and to allow the licensed corporations of the Group to conduct and expand its businesses (for example, to avoid the circumstances where SYS had to turn down clients in respect of placing orders due to insufficient liquid capital). Due to the lower interest rate, financing through the Convertible Bonds Issuance would substantially lower the finance costs of the Company. Upon conversion of the Convertible Bonds, the liability of the Group would substantially decrease, which could result in the Company achieving a net asset position instead of the current net liability position and allow the Group to regain the ability to obtain debt financing on competitive terms from independent third party investors or financial institutions in the near future.

As at 31 March 2021, SYS has approximately HK\$13.7 million of cash and bank balances on its accounts based on the management accounts of the Company. SYS has recorded profits from its securities brokerage business notwithstanding the restriction of its ability to act as underwriter for fund-raising exercises with no full funding/binding commitment or provision of margin financing to customers due to the FRR requirements. In this regard, the cash proceeds of approximately HK\$50.0 million from the Convertible Bonds Issuance, all of which are intended to be used for the replenishment of the liquid capital of SYS, would enable SYS to advance with business opportunities to act as underwriter for larger scale of fund-raising exercises and/or resumption of margin financing by allowing it to meet the corresponding liquid capital requirement pursuant to the FRR. Furthermore, taking into account the outstanding receivables from the business of SYS conducted in 2020 (which is expected to be received by June 2021) and the revenue to be generated by its business in 2021 in addition to the HK\$50.0 million of cash proceeds from the Convertible Bonds Issuance, it is expected that the financial position of SYS would be significantly improved in the course of 2021, enabling SYS to facilitate its clients to participate in larger scale of fund-raising exercises, expand its sources of income and increase its scale of business as a whole while

## LETTER FROM THE BOARD

complying with the FRR requirements. Taking into consideration the number of ECM and DCM deals preliminary secured by the Company for its Securities Brokerage and Financial Services Business in 2021, the Board currently expects that approximately HK\$80 million of liquid capital shall be maintained by SYS for the Company to achieve the Business Plan.

Therefore, the Company proposes to issue the Convertible Bonds in order to settle the principal amount of the Shareholder's Loan, replenish its liquid capital and facilitate the future expansion of the Group's underwriting and other businesses.

### *(iii) the Subscriber's intention to acquire majority stake and the Proposed Conversion*

It is the commercial intention of the Yuanyin Group to acquire majority stake in the Company. Holding more than 50% of the total issued share capital of the Company will give Yuanyin Holdings a controlling interest in the Group, and shareholders of Yuanyin Holdings will therefore also have more incentive in devoting resources of the Yuanyin Group into the Group after Yuanyin Holdings becomes a majority shareholder of the Company, which will further enhance the continuing implementation of the Business Plan at both operational and financial levels. The aforementioned intention is also in line with the Proposed Transfer of Businesses by the Yuanyin Group and the proposed surrender of Type 1, Type 4 and Type 9 licenses by the Yuanyin Licensed Entities as described in the section headed "E. Delineation of Businesses between the Group and the Yuanyin Group" of this circular below. The Yuanyin Group believes that it will remain in its best commercial interest to have the Group, the financial statements of which are expected to be consolidated into that of the Yuanyin Group after full conversion of the Convertible Bonds, to carry out all relevant Regulated Activities.

Accordingly, Yuanyin Holdings intends to convert the Convertible Bonds in full to the Shares (the "**Proposed Conversion**") pursuant to the terms and conditions of the Subscription Agreement as soon as practicable after the conditions to the Conversion are satisfied or waived (where applicable). The Company currently expects that Completion will take place on or before 31 May 2021, subject to the passing of all resolutions by the Independent Shareholders approving the entering into of the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Share Capital Increase, and Yuanyin Holdings proposes to initiate the necessary procedures required for the Proposed Conversion within one month after Completion and, in any event, as soon as practicable thereafter, including but not limited to the obtaining of Shareholders' approval for the Capital Reorganization; the application to the Executive for the Whitewash Waiver and the application to the SFC for the change of substantial shareholder(s) (as defined in the SFO) of each of the licensed corporations within the Group upon the issuance of the Conversion Shares (if required).

## LETTER FROM THE BOARD

### *(iv) other fund-raising alternatives*

The Company has considered the feasibility of other fund raising alternatives to the Subscription, including other means of debt financing (such as bank and other borrowings) and equity financing (such as a rights issue or open offer to existing Shareholders).

In respect of bank and other borrowings, the Company have not received promising feedback with affordable financing terms from its preliminary approaches to banks due to the Group's history of loss making financial position in the previous years.

In respect of other equity financing, a rights issue or an open offer would involve lengthy preparation and issue of a relatively more detailed prospectus, therefore a relatively longer timeframe to complete. Also, expenses such as underwriting commission, documentation and other professional fees associated with rights issue or open offer are more costly than those of the Subscription.

As compared to issue of convertible bonds to independent third parties, the Subscription would further strengthen and enhance the relationship between the Company and the Subscriber. It can provide an efficient means of raising capital for the Group's present needs and demonstrate the Subscriber's confidence in and commitment to the Company. It is considered that such further alignment and strengthening of interests would be beneficial to the Group's long-term business development.

The Company has no present intention to conduct any potential fund raising activities save for the Subscription for the next 12 months. The Company is positive towards its implementation of the Business Plan, details of which are set out in the section "D. Business Plan of the Company" in this letter from the Board, in turn which the revenue continuously and/or to be generated from the Group's principal businesses can be used to strengthen the Group's general working capital base, and the Board considers that the funding to be raised from the Convertible Bonds Issuance would be sufficient to meet the Company's funding needs for the 12 months following the Latest Practicable Date.

The Independent Board Committee whose view is set forth in the letter from the Independent Board Committee in this circular after taking into account the advice from Gram Capital considers the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder (including the Convertible Bonds Issuance, the settlement of the Shareholder's Loan and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds) are determined after arm's length negotiations between the Company and the Subscriber, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE BOARD

### 9. Information on Parties to the Subscription Agreement

#### *The Group and the Company*

The Company is a company incorporated in Bermuda with limited liability. The Company, together with its subsidiaries, is a Hong Kong based institution providing a wide range of financial services. The Group principally conducts businesses in two business segments: (i) securities brokerage and financial services and (ii) asset management.

#### *The Subscriber*

Yuanyin Holdings, a company incorporated in the British Virgin Islands with limited liability which, together with its subsidiaries, was interested in 1,030,170,000 Shares, representing approximately 26.97% of the total issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, Yuanyin Holdings had two classes of shares in issue, being 829,906,182 class A shares (“**Class A Share(s)**”) and 100,000,000 class B shares (“**Class B Share(s)**”). Each Class A Share confers upon its holder the right to one vote, and each Class B Share confers upon its holder the right to five votes (except for certain matters including (i) amendment of the memorandum and articles of association of Yuanyin Holdings, including any amendment of any rights attached to any class of shares; (ii) appointment or removal of the auditors of Yuanyin Holdings; (iii) voluntary liquidation or dissolution of Yuanyin Holdings; and (iv) amendment of the terms of reference of the board of directors of Yuanyin Holdings, in respect of which each Class B Share confers upon its holder the right to one vote), at a meeting of the shareholders of Yuanyin Holdings. All 100,000,000 Class B Shares are held by Yuanyin ESOP Limited as at the date of this circular.

## LETTER FROM THE BOARD

The table below sets out details of the shareholding structure of Yuanyin Holdings as at the Latest Practicable Date:

Name of shareholders	Number of shares	% of the shares	Number of votes held	% of the voting rights
Yuanyin ESOP Limited <sup>(1)</sup>	100,000,000	10.75%	500,000,000	37.60%
Yuanyin Finance <sup>(2)</sup>	199,906,182	21.50%	199,906,182	15.03%
Deyou Hong Kong Limited (德祐香港有限公司) <sup>(3)</sup>	20,000,000	2.15%	20,000,000	1.50%
LUXURY TREASURE HOLDINGS LIMITED (逸寶控股有限公司) <sup>(4)</sup>	50,000,000	5.38%	50,000,000	3.76%
Shengzhao Industry Limited (盛兆實業有限公司) <sup>(5)</sup>	100,000,000	10.75%	100,000,000	7.52%
Yunlei Enterprises Limited (雲雷企業有限公司) <sup>(6)</sup>	100,000,000	10.75%	100,000,000	7.52%
COMPETENT GLORY LIMITED <sup>(7)</sup>	50,000,000	5.38%	50,000,000	3.76%
Zhenyu Corporation Limited (振宇企業有限公司) <sup>(8)</sup>	100,000,000	10.75%	100,000,000	7.52%
Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司) <sup>(9)</sup>	100,000,000	10.75%	100,000,000	7.52%
Pure Benefit Developments Limited <sup>(10)</sup>	100,000,000	10.75%	100,000,000	7.52%
Superb East Investments Limited (卓東投資有限公司) <sup>(11)</sup>	<u>10,000,000</u>	<u>1.08%</u>	<u>10,000,000</u>	<u>0.75%</u>
<b>Total</b>	<b><u><u>929,906,182</u></u></b>	<b><u><u>100%</u></u></b>	<b><u><u>1,329,906,182</u></u></b>	<b><u><u>100%</u></u></b>

Notes:

As at the Latest Practicable Date,

- (1) Yuanyin ESOP Limited, a company principally engaged in investment holding, being the single largest shareholder of Yuanyin Holdings, was wholly-owned by Mr. Liu Yang (an executive Director and the chairman of the Board).
- (2) Yuanyin Finance, a company principally engaged in money lender business, was a wholly-owned subsidiary of Yuanyin Holdings.
- (3) Deyou Hong Kong Limited, a company principally engaged in providing trust services, was owned by Mr. Ma Baojun (馬寶軍) as to 100%.
- (4) LUXURY TREASURE HOLDINGS LIMITED, a company principally engaged in medical insurance and infrastructure, was owned by Mr. Ma Jie (馬捷) as to 100%.

## LETTER FROM THE BOARD

- (5) Shengzhao Industry Limited, a company principally engaged in real estate property development, was owned by Mr. Huang Shuanggang (a non-executive Director) as to 100%.
- (6) Yunlei Enterprises Limited, a company principally engaged in infrastructure development, was owned by Mr. Jiao Yunlei (焦雲雷) as to 100%.
- (7) COMPETENT GLORY LIMITED, a company principally engaged in metal trading business, was owned by Mr. Fu Qinglin (付慶林) as to 100%.
- (8) Zhenyu Corporation Limited, a company principally engaged in real estate property development, was owned by Mr. Liu Zhenjiang (劉鎮江) as to 100%.
- (9) Hong Kong Xingrui International Investment Co., Limited, a company principally engaged in coal industry, was owned by Chen Xingming (陳星明) as to 98.02% and by Li Jie (李杰) as to 1.98%.
- (10) Pure Benefit Developments Limited, a company principally engaged in investment holding, was owned by Cong Lin (叢林) as to 100%.
- (11) Superb East Investments Limited, a company principally engaged in real estate property development, was owned by Mr. Zhang Chunmin (張春敏) as to 100%.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, save for Shengzhao Industry Limited, Yuanyin ESOP Limited, Yuanyin Finance, Mr. Huang Shuanggang and Mr. Liu Yang, the remaining shareholders of Yuanyin Holdings and their respective ultimate beneficial owner(s) were independent third parties of the Company.

### 10. Implications under Listing Rules

As at the Latest Practicable Date, the Subscriber was a substantial Shareholder which, together with its subsidiaries, was interested in 1,030,170,000 Shares, representing approximately 26.97% of the total issued share capital of the Company. Accordingly, Yuanyin Holdings is a connected person of the Company under Chapter 14A of the Listing Rules.

Therefore, the entering into of the Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The entering into of the Subscription Agreement and the transaction contemplated thereunder are subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Liu Yang, Mr. Zhou Quan, Mr. Zhao Yun, each being an executive Director and Mr. Huang Shuanggang, a non-executive Director, are considered to have a material interest in the Subscription Agreement, the transactions contemplated thereunder and the proposed grant of the Specific Mandate by reason that (i) Mr. Liu Yang, Mr. Zhao Yun and Mr. Zhou Quan are Directors nominated by Yuanyin Holdings; (ii) Mr. Liu Yang is deemed to be interested in 1,030,170,000 Shares held by Yuanyin Holdings pursuant to Part XV of the SFO; (iii) Mr. Huang Shuanggang (a non-executive Director) indirectly holds approximately 10.75% of the shares and 7.52% of the voting rights in Yuanyin

## LETTER FROM THE BOARD

Holdings; and (iv) Mr. Liu Yang, Mr. Zhao Yun and Mr. Huang Shuanggang are also directors of Yuanyin Holdings. Therefore, each of Mr. Liu Yang, Mr. Zhou Quan, Mr. Zhao Yun and Mr. Huang Shuanggang has abstained from voting at the Board meeting in respect of the relevant resolutions.

Other than the abovementioned Directors, the remaining Directors are the independent non-executive Directors forming the Independent Board Committee whose view is set forth in the Letter from the Independent Board Committee in this circular after taking into account the advice from Gram Capital in respect of the Subscription Agreement, the transactions contemplated thereunder and the proposed grant of the Specific Mandate.

### **C. PROPOSED INCREASE IN THE AUTHORIZED SHARE CAPITAL OF THE COMPANY**

As at the Latest Practicable Date, the authorized share capital of the Company was HK\$400,000,000 divided into 8,000,000,000 Shares, of which 3,819,705,413 Shares have been issued and fully paid. Upon completion of the full conversion of the Convertible Bonds, an aggregate of 5,000,000,000 of new Shares will be issued. In order to facilitate the possible conversion of the Convertible Bonds, the Directors propose to increase the Company's authorized share capital to HK\$600,000,000 divided into 12,000,000,000 Shares by the creation of additional 4,000,000,000 Shares.

The Share Capital Increase is conditional upon passing of an ordinary resolution by the Shareholders at the SGM.

### **D. BUSINESS PLAN OF THE COMPANY**

The Company and its management team have decided that a team of professionals in the Asset Management Business and the Securities Brokerage and Financial Services Business should be recruited from YSL and YAML to join the Group in order to expand and develop its current businesses. The Company has also decided that it would require a significant amount of immediate funds to finance its expansion activities and to improve its liquid capital, in order to regain the ability to conduct underwriting activities in compliance with the requirements under FRR. With a view to achieving the aforementioned, the Company has formulated the Business Plan to improve both its operational and financial conditions (the "**Business Plan**").

In addition to the Convertible Bonds Issuance which would enable the Company to raise additional funds, as at the Latest Practicable Date, the Company was also in the course of implementing the remaining part of the Business Plan, which primarily involves (i) recruitment of senior personnel and expansion of the Group's principal businesses; (ii) the seeking of various new business opportunities; and (iii) the taking of various measures to optimize operating expenses of the Group. As a result of the implementation of the Business Plan, the existing businesses of the Group has been significantly restructured, expanded and developed.



## LETTER FROM THE BOARD

### 1. Recruitment of Senior Personnel and Expansion of Principal Businesses

#### *(i) Asset Management Business*

Under the Business Plan, the Company has been expanding the scope and size of the Asset Management Business, being one of the core businesses of the Company, through the recruitment of the asset management team of YAML by SYAM. YAML has a seasoned asset management team with a strong expertise and network to access institutional and high-net-worth individuals and has many years of track record (the “**New Asset Management Team**”). With the New Asset Management Team in place, the Group has been expanding its services in terms of investment product line and increasing its fund-raising capability through the strong connection of the members of the New Asset Management Team. According to the audited financial statements of the Group for the year ended 31 December 2020, the Company recorded a revenue of approximately HK\$12.0 million from the Asset Management Business, representing approximately 27.0% of its total revenue.

As at the Latest Practicable Date, SYAM was expected to be appointed as the investment manager of (i) Global Healthcare Growth Fund, a fund expected to be launched in around June 2021 which will be engaged in investment in healthcare companies throughout the world, including companies operating in the healthcare sectors on pharmaceuticals, biotechnology, healthcare services and medical technology and supplies; and (ii) SY Multi-tranche Fixed Income Fund SP, a fund expected to be launched in the third quarter of 2021 which will primarily invest in fixed income securities such as government, corporate or convertible bonds, private placement debt, notes lined to fixed income instruments or preferred shares, other bond funds, money market funds or cash.

#### *(ii) Securities Brokerage and Financial Services Business*

Under the Business Plan, to expand the Securities Brokerage and Financial Services Business, being one of the core businesses of the Company, SYS has recruited a senior management team from YSL (the “**New Securities Team**”), which has a strong network to pursue ECM and DCM projects opportunities, to act as its responsible officers for its Securities and Brokerage and Financial Services Business. According to the audited financial statements of the Group for the year ended 31 December 2020, the Company recorded a revenue of approximately HK\$32.5 million from the Securities Brokerage and Financial Services Business, representing approximately 73.0% of its total revenue.

The Group has been conducting the placing and underwriting services with full commitments from clients ever since the joining of the New Securities Team, and SYS has acquired and completed several DCM and ECM projects. As at the Latest Practicable Date, through the marketing network of the Company’s strategic partners as well as the New Securities Team, the Group had preliminary secured 11 new DCM deals and six new ECM deals in 2021.

## LETTER FROM THE BOARD

### *(iii) Other Businesses*

As part of its Business Plan, the Company has successfully diversified its revenue stream by providing consultancy services. By assisting borrower to obtain financing from potential lender, the Group will receive referral fee from the lender. Furthermore, upon approval by SFC of the application of a responsible officer of SYC, SYC has met the requirement of minimum responsible officers and has resumed conducting corporate finance business and has been actively exploring new business opportunities.

For more details of the recruitment of senior personnel, please refer to the section headed “E. Delineation of Businesses between the Group and the Yuanyin Group” of this circular below.

### **2. Measures to Reduce the Operating Expenses of the Group**

As at the Latest Practicable Date, the Group had sought to significantly reduce its operating expenses by (i) moving to smaller office from 26 August 2019 onwards, which resulted in more than 50% drop in monthly rental expenses and management fees; (ii) laying off non-essential staff, which would result in lower staff expenses, as well as corresponding decrease in operating and administrative expenses; and (iii) adopting strict cost control policies from February 2020, under which travel and entertainment expenses have been substantially reduced.

## **E. DELINEATION OF BUSINESSES BETWEEN THE GROUP AND THE YUANYIN GROUP**

### **1. Minimum Business Operations of the Yuanyin Licensed Entities**

As at the Latest Practicable Date, the following Yuanyin Licensed Entities, each being an indirect wholly-owned subsidiary of Yuanyin Holdings, were licensed to carry out the Regulated Activities:

- (i) YSL, a company incorporated in Hong Kong with limited liability, which is licensed to carry out type 1 (dealing in securities) and type 4 (advisory on securities) Regulated Activities; and
- (ii) YAML, a company incorporated in Hong Kong, which is licensed to carry out type 4 (advisory on securities) and type 9 (asset management) Regulated Activities.

To ensure that the businesses of the Group and the Yuanyin Group are clearly delineated, each of YSL and YAML had been reducing the operation of the Regulated Activities since the first quarter of 2020, and had only been carrying out the Regulated Activities at a minimum level as at the Latest Practicable Date. Based on the respective management accounts of each of YSL and YAML for the year ended 31 December 2020, the revenue generated from the Regulated Activities of YSL for the six months ended 30 June 2020 represents approximately 87.7% of its total revenue for the year ended 31 December 2020, and revenue generated from the Regulated Activities of YAML for the

## LETTER FROM THE BOARD

six months ended 30 June 2020 represents approximately 89.3% of its total revenue for the year ended 31 December 2020, showing a significant downward trend. Furthermore, each of YSL and YAML intends to continue minimizing the operations of the Regulated Activities, as further described in the sub-section headed “The Proposed Transfer of Businesses” below.

### **2. The Proposed Transfer of Businesses**

Subject to the maintaining of the listing status of the Company, it is the commercial intention of both Yuanyin Holdings and the Company to transfer the remaining operations of the Regulated Activities of YSL and YAML to the Group, which primarily involves (i) the recruitment of key management team from the Yuanyin Licensed Entities by the Group; and (ii) the transfer of clients of YSL and YAML to SYS and SYAM, being the licensed subsidiaries of the Company, respectively.

#### ***(i) Recruitment of key management team from the Yuanyin Licensed Entities***

To expand and develop the asset management business operated by SYAM, which is one of the core businesses of the Group, SYAM has recruited senior personnel from the asset management team from YAML, who are in possession of strong expertise and network to access institutional and high-net-worth individuals and have many years of track record. As at the Latest Practicable Date, two of the former licensed representatives of YAML had joined SYAM as responsible officers and licensed representative, respectively, and one of the current responsible officers of YAML will also join SYAM as a responsible officer after Completion of the Convertible Bond Issuance and obtaining approval from the SFC.

Furthermore, to expand the securities brokerage business, SYS has recruited a senior management team who has sound experience with equity capital market and debt capital market deals from YSL to act as its responsible officers for its securities brokerage business. As at the Latest Practicable Date, two senior management members have been recruited to SYS from YSL as responsible officers, and one of the current responsible officers of YSL will also join SYS as a responsible officer after Completion of the Convertible Bond Issuance and obtaining approval from the SFC.

The Company expects the recruitment of relevant remaining senior personnel from each of YSL and YAML to SYS and SYAM will be completed within six months following the issuance of the Convertible Bonds taking into account of, among others, the time required for the SFC’s vetting process regarding the recruitment of responsible officers, which on average may take 10 to 12 weeks or more and the time required for completing the handover works relating to YSL and YAML.

## LETTER FROM THE BOARD

### *(ii) Transfer of Customers by the Yuanyin Licensed Entities*

Along with the recruitment of key management teams of the Yuanyin Licensed Entities by the Group as disclosed above, substantially all the revenue-generating customers of the Yuanyin Licensed Entities have established business relationships with the Group and opened client accounts with the Group. In addition, the Yuanyin Licensed Entities will continue to negotiate with the remaining customers and endeavour to transfer or refer the remaining businesses in relation to the Regulated Activities to SYS and SYAM respectively before the cessation of their relevant Regulated Activities business, and such transfer of customers is expected to be completed within six months following the issuance of the Convertible Bonds taking into account of, among others, the time required for the remaining customers of Yuanyin Licensed Entities, among which include banks and financial institutions, to complete their internal procedures (e.g. customary know-your-client procedures, background check and credit rating assessment) for engagement of new service providers, being SYS and SYAM.

As disclosed in the section headed “8. Reasons for and Benefits of the Convertible Bonds Issuance — (iii) the Subscriber’s intention to acquire majority stake and the Proposed Conversion”, it is the commercial intention of the Yuanyin Group to acquire majority stake in the Company, which Yuanyin Holdings would be in a position to acquire so upon the issuance of the Convertible Bonds. Accordingly, the abovementioned remaining few steps for (i) the recruitment of two responsible officers from YSL and YAML to SYS and SYAM; and (ii) the transfer of remaining clients by Yuanyin Licensed Entities to SYS and SYAM would proceed following the issuance of the Convertible Bonds for Yuanyin Group to further delineate its business from the Group, and are expected to be completed within six months taking into consideration of the abovementioned factors. Subject to the maintaining of the listing status of the Company, the Yuanyin Licensed Entities will cease to carry out any Regulated Activities and intend to surrender the Type 1 and Type 4 licenses held by YSL and the Type 4 and Type 9 licenses held by YAML in due course within six months following the issuance of the Convertible Bonds, having assessed the market and operational conditions at the relevant time.

Accordingly, provided that the listing status of the Company is maintained, the Yuanyin Group will cease to conduct any Regulated Activities and will be principally engaged in investment holding and proprietary trading business which do not constitute any Regulated Activities. Meanwhile, the Group will, following completion of the Proposed Transfer of Businesses, be principally engaged in the provision of securities brokerage business, asset management services, proprietary trading (with the Group’s own capital and funds) and trading business.

## LETTER FROM THE BOARD

### 3. Deed of Non-Competition Undertakings

Upon full conversion of the Convertible Bonds (assuming that there will be no other change in the issued share capital of the Company), Yuanyin Holdings (together with its subsidiaries) will be interested in approximately 68.37% of the issued share capital of the Company (as enlarged by the issuance of the Conversion Shares) and will become a controlling shareholder of the Company (as defined under the Listing Rules).

To further delineate the businesses between Yuanyin Group and the Group and to ensure that competition does not develop between the Yuanyin Group and the Group, Yuanyin Holdings proposes to enter into the Deed of Non-Competition Undertakings in favor of the Company upon the Completion to the effect that from the date of the Completion and ending on the earlier of (a) the date on which Yuanyin Holdings, directly or indirectly, ceases to be interested in at least 30% of the issued share capital of the Company on a fully converted basis; and (b) the date on which the Shares cease to be listed on the Stock Exchange, the Yuanyin Group shall not carry on, engage, invest or participate in any business or investment activities which is the same as, similar to or in competition with the Restricted Business from time to time, save that the Yuanyin Group shall be permitted to retain its shareholding interests in YSL and YAML.

Further, Yuanyin Holdings will undertake to the Company that it will refer, or procure the referral of, any investment or commercial opportunities relating to any Restricted Business (collectively, the “**New Business Opportunities**” and each, a “**New Business Opportunity**”) to the Company in the following manner:

- (a) As soon as it becomes aware of any New Business Opportunity, give written notice (the “**Offer Notice**”) to the Company identifying the nature of the New Business Opportunity, detailing all information available to it for the Company to consider whether to pursue, such New Business Opportunity.
- (b) The Company shall, as soon as practicable and in any case within 20 Business Days from the receipt of the Offer Notice (the “**Offer Notice Period**”) notify Yuanyin Holdings in writing of any decision taken to pursue or decline the New Business Opportunity. During the Offer Notice Period, the Company may negotiate with the third party who has offered, proposed or presented the New Business Opportunity and Yuanyin Holdings shall use its best endeavors to assist the Company in obtaining such New Business Opportunity on the same or more favorable terms.
- (c) The Company is required to, among other things, seek approval from its independent non-executive Directors who do not have a material interest in the matter for consideration as to whether to pursue or decline the New Business Opportunity, and that the appointment of an independent financial adviser to advise on the terms of the transaction in the subject matter of the New Business Opportunity may be required.

## LETTER FROM THE BOARD

- (d) If there is a change in the nature or proposal of the New Business Opportunity pursued by Yuanyin Holdings, it shall refer the New Business Opportunity as revised and shall provide to the Company details of all available information for the Company to consider whether to pursue such New Business Opportunity as revised.

#### **4. Corporate Governance Measures**

In addition to the above, the Company also undertakes to put in place adequate corporate governance measures to manage the potential conflict of interests between the Yuanyin Group and the Group and to safeguard the interests of the Shareholders taken as a whole as follows:

- (a) the independent non-executive Directors will review, on an annual basis, the compliance with non-competition undertakings by Yuanyin Holdings under the Deed of Non-Competition Undertakings;
- (b) Yuanyin Holdings shall provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition Undertakings;
- (c) the Company will disclose decisions and basis thereof on matters reviewed by the independent non-executive Directors (including all rejections by the Company of New Business Opportunities referred from Yuanyin Holdings) relating to compliance and enforcement of the non-competition undertakings by Yuanyin Holdings under the Deeds of Non-Competition Undertakings in the annual reports of the Company or by way of public announcement(s); and
- (d) Yuanyin Holdings will make annual statements on compliance with the Deeds of Non-Competition Undertakings in the annual reports of the Company, which is consistent with the principle of making disclosure in the corporate governance report of the annual report.

As such, the Company is of the view that after taking the aforementioned action steps, including but not limited to the Proposed Transfer of Businesses, the businesses of the Group and the Yuanyin Group will be clearly delineated. The Company will issue further announcement(s) in relation to completion of such delineation of businesses within 6 months after the Completion of the Convertible Bonds Issuance.

## LETTER FROM THE BOARD

### F. OTHER INFORMATION

#### 1. Proposed Capital Reorganization

As advised by the Company's Bermuda legal advisor, the Company may not issue Shares at a discount to the nominal value of such Shares under Bermuda law. Accordingly, to facilitate the possible Conversion of the Convertible Bonds at the Conversion Price of HK\$0.03 per Share, the Company intends to, following the issuance of the Convertible Bonds and subject to Shareholders' approval, implement the Capital Reorganization which will involve the Capital Reduction and the Share Subdivision, details of which are as follows:

##### *(a) Capital Reduction*

The Company will propose to implement the Capital Reduction, pursuant to which the issued share capital of the Company will be reduced by a reduction of the par value of each issued existing Share from HK\$0.05 to HK\$0.01 which reduction will comprise a cancellation of such amount of the paid-up capital on each issued existing Share so that each issued existing Share will be treated as one fully paid-up share of par value of HK\$0.01 each in the share capital of the Company immediately following the Capital Reduction and the credit arising from the Capital Reduction will be credited to the contributed surplus account of the Company within the meaning of the Companies Act.

##### *(b) Share Subdivision*

Immediately following the Capital Reduction, each of the authorized but unissued existing Shares of par value of HK\$0.05 each will be sub-divided into one (1) new Share of par value of HK\$0.01 each.

#### 2. Possible Mandatory General Offer and Application for Whitewash Waiver

As at the Latest Practicable Date, the Subscriber, through itself and its wholly-owned subsidiary, was interested in 1,030,170,000 Shares, representing approximately 26.97% of the existing issued share capital of the Company. Upon full conversion of the Convertible Bonds, assuming that there is no other change in the issued share capital of the Company save for the issuance of such Conversion Shares, the shareholding of the Subscriber and parties acting in concert with it in the Company will be increased from approximately 26.97% to approximately 68.37% of the issued share capital of the Company as enlarged by the issuance of the Conversion Shares.

Each of the Company and the Subscriber is fully aware that, in the absence of the Whitewash Waiver, upon conversion of the Convertible Bonds by the Subscriber from time to time, it may trigger Rule 26.1 of the Takeovers Code that requires the Subscriber to make a mandatory general offer to the Shareholders for all issued Shares (not already owned or agreed to be acquired by it or any parties acting in concert with it).

## LETTER FROM THE BOARD

In the event that the Subscriber intends to convert the Convertible Bonds in a principal amount which will render the Subscriber obligated to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by it or parties acting in concert with it, the Subscriber will make an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will be granted subject to, among other things, the requisite approval of the Independent Shareholders at a general meeting of the Company by way of poll as required under the Takeovers Code. In the event that the Whitewash Waiver is not granted by the Executive, Yuanyin Holdings may elect to waive the condition to such conversion of the Convertible Bonds in respect of granting of the Whitewash Waiver by the Executive and proceed with such conversion of Convertible Bonds (hence the issuance of the Conversion Shares) in the absence of the Whitewash Waiver, and will therefore make a mandatory general offer for the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company pursuant to the relevant requirements under the Takeovers Code. The Company will issue further announcement(s) in this regard as and when appropriate.

### 3. SGM

The SGM will be convened to approve, among other things, (i) the Subscription Agreement and the transactions contemplated thereunder; (ii) the Specific Mandate for the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds; and (iii) the Share Capital Increase.

The Subscriber, Yuanyin International Limited (a wholly-owned subsidiary of the Subscriber which beneficially owned 19,170,000 Shares as at the Latest Practicable Date), their respective associates and parties acting in concert with any of them who are interested in the Subscription Agreement, the transactions contemplated thereunder and the grant of the Specific Mandate shall abstain from voting at the SGM in respect of all necessary resolutions approving the Subscription Agreement, the transactions contemplated thereunder, the grant of the Specific Mandate and the Share Capital Increase to be proposed at the SGM. The voting at the SGM will be conducted by way of a poll. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, save for the Subscriber and Yuanyin International Limited, which in aggregate are interested in 1,030,170,000 Shares (representing approximately 26.97% of the total issued share capital of the Company) as at the Latest Practicable Date, no other Shareholder is involved in or interested in the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) and will be required to abstain from voting on the resolution(s) approving the Subscription Agreement, the transactions contemplated thereunder, the grant of the Specific Mandate and the Share Capital Increase at the SGM. For the purpose of determining the list of Shareholders who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Tuesday, 11 May 2021 to Friday, 14 May 2021, both days inclusive, during which period no transfer of ordinary shares will be registered. In order to determine the identity of ordinary shareholder(s) who is entitled to attend and vote at the SGM, all transfers accompanied by the relevant



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share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 10 May 2021.

A notice convening the SGM to be held at 26F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong on Friday, 14 May 2021 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM is also enclosed herewith. Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

### **G. RECOMMENDATION**

The Independent Board Committee, having taken into account the advice from Gram Capital, considers that although the entering into of the Subscription Agreement is not in the ordinary course of business of the Company, the terms of the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate, are on normal commercial terms, fair and reasonable so far the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Share Capital Increase.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 49 to 50 of this circular which contains its recommendation to the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Share Capital Increase, based on the advice from Gram Capital set out on pages 51 to 64 of this circular which contains their recommendation to the Independent Board Committee and the principal factors and reasons taken into consideration.

## LETTER FROM THE BOARD

### H. ADDITIONAL INFORMATION

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

**WARNING: Completion of the Subscription Agreement is subject to the satisfaction (or waiver, if applicable) of the conditions precedent to the Subscription Agreement. As the Subscription may or may not be completed, the Convertible Bonds may or may not be issued and/or the Conversion Shares may or may not be issued or listed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.**

Yours faithfully,  
For and On behalf of the Board  
**Sheng Yuan Holdings Limited**  
**Liu Yang**  
*Chairman*



**盛源控股有限公司**

**SHENG YUAN HOLDINGS LIMITED**  
*(incorporated in Bermuda with limited liability)*  
**(Stock Code: 851)**

29 April 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION PROPOSED  
CONVERTIBLE BONDS ISSUANCE UNDER SPECIFIC MANDATE  
(2) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL  
OF THE COMPANY  
(3) BUSINESS PLAN OF THE COMPANY  
(4) DELINEATION OF BUSINESS BETWEEN THE GROUP AND  
THE YUANYIN GROUP  
AND  
(5) NOTICE OF SPECIAL GENERAL MEETING**

We refer to the circular of the Company (the “**Circular**”) dated 29 April 2021 of which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of, among other things, the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Share Capital Increase, the details of which are set out in the “Letter from the Board” on pages 7 to 48 of the Circular. Gram Capital has been appointed to advise us in this regard.

Details of the advice and the principal factors and reasons that Gram Capital has taken into consideration in rendering its advice are set out in the “Letter from the Gram Capital” on pages 51 to 64 of this circular. Your attention is also drawn to the additional information set out in the Circular.

Having taken into account the terms of the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Share Capital Increase and the advice of Gram Capital, we are of the opinion that although the entering into of the Subscription Agreement is not in the ordinary course of business of the Company, the terms of the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

and the Share Capital Increase are on normal commercial terms, 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 to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Share Capital Increase.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Zhang Jinfan    Ms. Wen Han Qiuzi    Ms. Huang Qin**  
*Independent non-executive Directors*

## LETTER FROM GRAM CAPITAL

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



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

29 April 2021

*To: The independent board committee and the independent shareholders  
of Sheng Yuan Holdings Limited*

Dear Sir/Madam,

### **CONNECTED TRANSACTION IN RELATION TO PROPOSED CONVERTIBLE BONDS ISSUANCE UNDER SPECIFIC MANDATE**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 29 April 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 1 April 2021, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds due 2023 in the aggregate principal amount of HK\$150 million at the interest rate of 1% per annum.

With reference to the Board Letter, the Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Zhang Jinfan, Ms. Wen Han Qiuqi and Ms. Huang Qin (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscription is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Subscription at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

## LETTER FROM GRAM CAPITAL

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Company. We have assumed that all information and representations that have been provided by the Company, for which it is solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or 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 Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Company's representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Subscription. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statements in the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Subscriber or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Subscription. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

## LETTER FROM GRAM CAPITAL

### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Background of and reasons for the Subscription

##### *Information on the Group*

With reference to the Board Letter, the Company is a company incorporated in Bermuda with limited liability. The Company, together with its subsidiaries, is a Hong Kong based institution providing a wide range of financial services. The Group principally conducts businesses in two business segments: (i) securities brokerage and financial services; and (ii) asset management.

Set out below are the consolidated audited financial information of the Group for the two years ended 31 December 2020 as extracted from the Company's annual results announcement for the year ended 31 December 2020 (the "2020 AR Announcement"):

	<b>For the year ended 31 December 2020 HK\$'000</b>	<b>For the year ended 31 December 2019 HK\$'000</b>	<b>Change from 2019 to 2020 %</b>
Fee and commission income	44,549	8,804	406.01
— <i>Securities brokerage and financial services</i>	32,516	330	9,753.33
— <i>Asset management services</i>	12,033	8,474	42.00
Interest income	—	40	(100)
Profit/(Loss) attributable to owners of the Company	12,006	(77,334)	N/A
	<b>As at 31 December 2020</b>	<b>As at 31 December 2019</b>	<b>Change from 2019 to 2020 %</b>
Net liabilities	(50,762)	(62,778)	(19.14)

As illustrated in the above table, the Group's fee and commission income for the year ended 31 December 2020 ("FY2020") increased substantially by approximately 406.01% as compared to that for the year ended 31 December 2019 ("FY2019"). With reference to the 2020 AR Announcement, such increase in fee and commission income was mainly due to the Group's effort to expand its securities brokerage and financial services business, which further led to the completion of multiple debt capital market ("DCM") and equity capital market ("ECM") projects during the year.

## LETTER FROM GRAM CAPITAL

Profit attributable to owners of the Company for FY2020 was approximately HK\$12.01 million as compared with loss attributable to owners of the Company of approximately HK\$77.33 million for FY2019. With reference to the 2020 AR Announcement, such turnaround was primarily attributable to both increase in fee and commission income and decrease in staff costs, finance costs, and other operating expenses for FY2020.

As at 31 December 2020, the Group recorded net liabilities of approximately HK\$50.76 million.

With reference to the 2020 AR Announcement, the Group has formulated a business plan to enhance its financial positions, as well as to the develop its existing business operations. For securities brokerage business, the Group will utilize its expertise and network to secure DCM and ECM deals in order to generate underwriting income. The Group will also step up its efforts in asset management business by establishing additional funds of various types, developing more financial products, and expanding its customer base to keep abreast of the market trends by focusing on high-valued customers and potential professional investor groups. In addition, the Group will continue to expand its financial consultancy businesses including corporate finance advisory services and mergers and acquisitions transactions. It is expected that with the successful implementation of the business plan, the Company may be able to generate positive cash flows from operations and significantly improving its operating performance.

### *Information on the Subscriber*

With reference to the Board Letter, the Subscriber is a company incorporated in the British Virgin Islands with limited liability which, together with its subsidiaries, was interested in 1,030,170,000 Shares, representing approximately 26.97% of the total issued share capital of the Company as at the Latest Practicable Date. The Subscriber is a connected person of the Company.

### *Reasons for and benefits of the Subscription and use of proceeds*

With reference to the Board Letter, as at the Latest Practicable Date, Yuanyin Finance (a wholly-owned subsidiary of the Subscriber) had granted a Shareholder's Loan in the principal amount of HK\$99.8 million at the interest rate of 5% per annum with a maturity date of 22 January 2023 to the Group. The Board considers that the Shareholder's Loan represents a heavy financial burden to the Group. In view of the above, the Board has reviewed and explored different approaches to settle the Shareholder's Loan and considered the Convertible Bonds Issuance to be the most effective and suitable approach, which can help ease the cashflow pressure and reduce the liability of the Group, and thus the net assets of the Group is expected to increase significantly after the full conversion of Convertible Bonds.



## LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Company considered the feasibility of other fund raising alternatives to the Subscription, including other means of debt financing (such as bank and other borrowings) and equity financing (such as a rights issue or open offer to existing Shareholders). In respect of bank and other borrowings, the Company have not received promising feedback with affordable financing terms from its preliminary approaches to banks due to the Group's history of loss making financial position in the previous years. In respect of other equity financing, a rights issue or an open offer would involve lengthy preparation and issue of a relatively more detailed prospectus, therefore a relatively longer timeframe to complete. Also, expenses such as underwriting commission, documentation and other professional fees associated with rights issue or open offer are more costly than those of the Subscription. As compared to issue of convertible bonds to independent third parties, the Subscription would further strengthen and enhance the relationship between the Company and the Subscriber. It can provide an efficient means of raising capital for the Group's present needs and demonstrate the Subscriber's confidence in and commitment to the Company. It is considered that such further alignment and strengthening of interests would be beneficial to the Group's long-term business development.

With reference to the Board Letter, as at the Latest Practicable Date, the capacity of SYS, an indirect wholly-owned subsidiary of the Company and a corporation licensed to conduct margin financing under the SFO, to conduct uncommitted underwriting and margin financing business is restricted by limitation of the low liquid capital. SYS has also been heavily restricted from acting as the underwriter for fund-raising exercises that require committed subscription given the liquid capital requirement pursuant to the FRR. The Group is in urgent need of cash funding in order to ease these financial restrictions and to allow the licensed corporations of the Group to conduct and expand its businesses (for example, to avoid the circumstances where SYS had to turn down clients in respect of placing orders due to insufficient liquid capital).

Due to the lower interest rate, financing through the Convertible Bonds Issuance would substantially lower the finance costs of the Company. Upon conversion of the Convertible Bonds, the liability of the Group would substantially decrease, which could result in the Company achieving a net asset position instead of the current net liability position and allow the Group to regain the ability to obtain debt financing on competitive terms from independent third party investors or financial institutions in the near future.

## LETTER FROM GRAM CAPITAL

Furthermore, we noted from the Board Letter that it is the commercial intention of the Yuanyin Group to acquire majority stake in the Company. Holding more than 50% of the total issued share capital of the Company will give Yuanyin Holdings a controlling interest in the Group, and shareholders of Yuanyin Holdings will therefore also have more incentive in devoting resources of the Yuanyin Group into the Group after Yuanyin Holdings becomes a majority shareholder of the Company, which will further enhance the continuing implementation of the Business Plan at both operational and financial levels. The aforementioned intention is also in line with the Proposed Transfer of Businesses by the Yuanyin Group and the proposed surrender of Type 1, Type 4 and Type 9 licenses by the Yuanyin Licensed Entities as described in the section headed “E. Delineation of Businesses between the Group and the Yuanyin Group” of the Board Letter. The Yuanyin Group believes that it will remain in its best commercial interest to have the Group, the financial statements of which are expected to be consolidated into that of the Yuanyin Group after full conversion of the Convertible Bonds, to carry out all relevant Regulated Activities.

With reference to the Board Letter, assuming the Convertible Bonds of an aggregate principal amount of HK\$150 million are issued, the aggregate gross proceeds and net proceeds from the Convertible Bonds Issuance are expected to be HK\$150 million and HK\$149.8 million, respectively. As the subscription price of the Convertible Bonds in the amount of HK\$99.8 million will be set off against the principal amount of the Shareholder’s Loan of HK\$99.8 million owed by the Group to Yuanyin Finance, the cash proceeds (after deducting such settlement amount and all related fees and expenses) to be received by the Company from the Convertible Bonds Issuance is approximately HK\$50.0 million. The Board intends to use 100% of the cash proceeds of approximately HK\$50.0 million from the Convertible Bonds Issuance for the replenishment of the liquid capital of SYS to facilitate the resumption of its margin financing activities and further expansion of the Group’s underwriting and other businesses in the future by complying with the relevant capital requirements under the FRR.

With reference to the Board Letter, SYS shall maintain minimum liquid capital at all times which shall be the higher of the amount of (a) HK\$3,000,000 – in the case of a corporation licensed for Type 1 (dealing in securities) or Type 2 (dealing in futures contracts) Regulated Activity that is not an approved introducing agent, futures non-clearing dealer or trader; and a corporation licensed for Type 4 (advising on securities) Regulated Activity which is not subject to specified licensing condition; and (b) its variable required liquid capital (As at 31 March 2021, the variable required liquid capital for SYS is approximately HK\$47,000 pursuant to the FRR. Accordingly, the minimum liquid capital applicable to SYS as at 31 March 2021 was HK\$3,000,000). Based on the current financial position of SYS, SYS only meets the minimum liquid capital for maintaining the securities brokerage services, uncommitted underwriting and placing services, as well as maintaining sufficient cash for its daily operations, but cannot conduct further margin financing effectively as any provision of such would increase SYS’s ranking liabilities and in turn decrease its liquid capital. Furthermore, SYS has been heavily restricted from acting as the underwriter for fund-raising exercises that require committed subscription given the liquid capital requirement pursuant to the FRR. As a result of the low level of liquid capital, SYS has been unable to act as underwriter

## LETTER FROM GRAM CAPITAL

for sizable fund-raising activities since 2018, as the provision of underwriting services with no full funding/binding commitment from clients would significantly increase its level of ranking liabilities, and hence significantly decrease its liquid capital, resulting in potential non-compliance with FRR requirements. In addition, the net liability position of the Group has seriously impaired its ability to seek bank financing. Accordingly, the Group is in urgent need of cash funding in order to ease these restrictions and to allow SYS to conduct and expand its businesses (for example, to avoid the circumstances where SYS had to turn down clients in respect of placing orders due to insufficient liquid capital). Taking into account the outstanding receivables from the business of SYS conducted in 2020 (which is expected to be received by June 2021) and the revenue to be generated by its business in 2021 in addition to the HK\$50.0 million of cash proceeds from the Convertible Bonds Issuance, it is expected that the financial position of SYS would be significantly improved in the course of 2021, enabling SYS to facilitate its clients to participate in larger scale of fund-raising exercises, expand its sources of income and increase its scale of business as a whole while complying with the FRR requirements. Taking into consideration the number of ECM and DCM deals preliminary secured by the Company for its Securities Brokerage and Financial Services Business in 2021, the Board currently expects that approximately HK\$80 million of liquid capital shall be maintained by SYS for the Company to achieve the Business Plan.

Having considered that (i) the Subscription can ease the Group's financial burden by settling the Shareholder's Loan and reducing finance cost (the Shareholder's Loan bears an interest rate of 5% per annum while the Convertible Bonds bear an interest rate of 1% per annum); (ii) the Group's net liabilities position may be improved upon conversion of the Convertible Bonds; and (iii) the net cash proceeds from the Subscription can support the business development and operation of the Group (mainly for SYS), we are of the view that although the Subscription is not conducted in the ordinary and usual course of business of the Company, it is in the interest of the Company and the Shareholders as a whole.

## **2. Principal terms of the Subscription**

### *The Subscription Agreement*

#### *Date*

1 April 2021

#### *Parties*

The Company (as the issuer)  
Yuanyin Holdings (as the Subscriber)

## LETTER FROM GRAM CAPITAL

### *Subject matter*

Subject to the fulfilment (or waiver, if applicable) of the conditions under the Subscription Agreement, details of which are set out in the sub-section headed “Conditions Precedents to the Subscription” of the Board Letter, the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds due 2023 in the aggregate principal amount of HK\$150 million at the interest rate of 1% per annum.

### *Completion*

Completion shall take place on the 10th Business Day (or such shorter period agreed by the Subscriber) after the fulfillment or waiver by the Subscriber of the conditions precedents to the Subscription (including, amongst others, Independent Shareholders’ approval of the Specific Mandate, the entering into of the Subscription Agreement and the Share Capital Increase and listing approval for the Conversion Shares) as set out under the section headed “Conditions Precedents to the Subscription” of the Board Letter or at such other time as the Company and the Subscriber may mutually agree upon.

Upon Completion, the total subscription price of the Convertible Bonds in the total amount of HK\$150 million will be satisfied (i) as to HK\$99.8 million by setting off against the Company’s obligation to repay the outstanding principal amount of the Shareholder’s Loan owed by the Group to Yuanyin Finance; and (ii) as to HK\$50.2 million being settled by cash in HK\$.

### ***The Convertible Bonds***

#### *Issuer*

The Company

#### *Principal amount*

HK\$150 million

#### *Maturity Date*

The second anniversary of the date of the issuance of the Convertible Bonds (i.e. the date of Completion), if that date is not a Business Day, the first Business Day thereafter.

#### *Interest*

1% per annum payable by the Company annually in arrears.

## LETTER FROM GRAM CAPITAL

### *Conversion price*

The initial conversion price will be HK\$0.03 per Conversion Share (the “**Conversion Price**”) subject to adjustment in the manner provided in the instrument to be executed by the Company pursuant to the terms of the Subscription Agreement, which represents:

- (i) a discount of approximately 43.40% to the closing price of HK\$0.053 per Share as quoted on the Stock Exchange on the Latest Practicable Date (the “**LPD Discount**”);
- (ii) no premium or discount over/to the closing price of HK\$0.03 per Share as quoted on the Stock Exchange on 31 March 2021, being the Last Trading Day prior to the date of the Subscription Agreement;
- (iii) a premium of approximately 1.33% over the average closing price of approximately HK\$0.0296 per Share as quoted on the Stock Exchange over the five Trading Days of the Shares up to and including the Last Trading Day; and
- (iv) a premium of approximately 2.00% over the average closing price of approximately HK\$0.0294 per Share as quoted on the Stock Exchange over the last ten Trading Days up to and including the Last Trading Day.

The Conversion Price was determined after arm’s length negotiations between the Company and the Subscriber having regard to the prevailing market price of the Shares on the Stock Exchange.

### *Adjustment to Conversion Price*

The Conversion Price shall be subject to adjustment upon occurrence of any of the events in accordance with the respective formulae as set out under the section headed “Adjustment to Conversion Price” of the Board Letter. We are not aware any unusual adjustment event or unreasonable adjustment formula.

## LETTER FROM GRAM CAPITAL

### *Conversion right and Conversion Shares*

Subject to the terms of the conditions under the Subscription Agreement, the Bondholder(s) shall have the conversion right, and upon the request by the Company the Bondholder(s) shall exercise such conversion right, to convert their Convertible Bonds into Shares credited as fully paid at any time during the conversion period of the Convertible Bonds.

Based on the initial Conversion Price of HK\$0.03 per Conversion Share, the Convertible Bonds may be convertible into a total of 5,000,000,000 Shares, representing approximately 130.90% of the issued share capital of the Company as at the Latest Practicable Date or approximately 56.69% of the issued share capital as enlarged by the issuance of the Conversion Shares, respectively.

### *Conversion period*

Subject to the terms and conditions under the Subscription Agreement, the period commencing on or after the next Business Day after the issue date of the Convertible Bonds and ending on the date that falls on the 10th Business Day after the maturity date, both dates inclusive, or a longer period of time as may be agreed otherwise by the Subscriber and the Company.

### *Redemption at maturity*

Unless previously redeemed, converted or cancelled, the Convertible Bonds shall be redeemed on the maturity date at its then outstanding principal amount. There is no early redemption clause in the Subscription Agreement.

We consider that it is not uncommon for the Subscription Agreement to have no early redemption clause.

### *Events of default*

The Events of Default are set out under the section headed “2. Principal Terms of the Convertible Bonds” of the Board Letter. We are not aware any unusual Event of Default.

## LETTER FROM GRAM CAPITAL

### *Analysis on the Conversion Price*

In order to assess the fairness and reasonableness of the Conversion Price, we reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 1 April 2020 up to and including 1 April 2021 (the “**Review Period**”), being a period of approximately one year prior to the date of the Subscription Agreement. The comparison of daily closing prices of the Shares and the Conversion Price is illustrated as follows:



*Source: the Stock Exchange's website*

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.019 recorded on 11 November 2020 and HK\$0.106 per Share recorded on 9 April 2020 respectively. The Conversion Price of HK\$0.03 is within the range of the lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the Review Period. The closing prices of the Shares diminished in May 2020 from HK\$0.105 to HK\$0.024. After a rebound in June 2020, the closing price of Shares remained at a relatively low level up to the date of the Subscription Agreement.

As part of our analysis, we also identified transactions in relation to the placing/ subscription of convertible bonds/notes under specific mandate which were announced by companies listed on the Stock Exchange from 1 October 2020 up to 1 April 2021, being a period of six months prior to and including the date of the Subscription Agreement (the “**CB Comparables**”). We consider a six-month period would allow sufficient, fair and representative comparable cases to demonstrate the market practice prior to the date of the Subscription Agreement. To the best of our knowledge and as far as we are aware of, we found 14 transactions which met the said criteria and the list of the CB Comparables is exhaustive. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the CB Comparables.

## LETTER FROM GRAM CAPITAL

Company name (stock code)	Date of announcement	Principal amount	Maturity (Years)	Interest rate per annum (%)	Conversion price of convertible bonds	Conversion price premium/ (discount) to closing price per share on the date prior to the date of agreement in relation to the respective issuance/ amendment of conversion price of convertible bonds	Dilution effect to public shareholders (percentage point) (Note 1)	Issue to connected person
China Ecotourism Group Limited (1371)	9 October 2020	HK\$50,000,000	2.00	8.00	(9.64)	(19.29)	Yes	
China Regenerative Medicine International Limited (8158)	20 October 2020	HK\$95,000,000	3.00	Nil	5.82	(10.26)	Yes	
Union Medical Healthcare Limited (2138)	18 November 2020	HK\$234,000,000	5.00	2.50	9.21	(0.75)	No	
Union Medical Healthcare Limited (2138)	18 November 2020	HK\$31,200,000	5.00	2.50	9.21	(0.10)	No	
Union Medical Healthcare Limited (2138)	18 November 2020	HK\$39,000,000	5.00	2.50	Nil	(0.14)	No	
CAR Inc. (699)	3 December 2020	US\$175,000,000	5.00	5.00	5.54	(5.40)	Yes	
North Mining Shares Company Limited (433)	22 December 2020	HK\$748,713,993	2.00	8.00	0.00	(39.27)	No	
SinoMab BioScience Limited (3681)	22 December 2020	HK\$100,000,000	1.00	4.95	28.87	(0.72)	Yes	
China Oil Gangran Energy Group Holdings Limited (8132)	23 December 2020	HK\$4,921,216	4.23 (Note 2)	Nil	(80.28)	(29.62)	No	
Genertec Universal Medical Group Company Limited (2666)	29 December 2020	US\$150,000,000	5.00	2.00	13.10	(5.26)	Yes	
Earthasia International Holdings Limited (6128)	19 January 2021	US\$6,910,000	2	5.5	14.04	(7.40)	No	
China Mengniu Dairy Company Limited (2319)	24 January 2021	RMB4,000,000,000	5	2 to 4 (Note 3)	(27.80)	(2.32)	No	
Target Insurance (Holdings) Limited (6161)	26 January 2021	HK\$400,000,000	5	Nil	(12.31)	(21.31)	Yes	
i-CABLE Communications Limited (1097)	27 January 2021	HK\$200,000,000	10	2	11.48	(13.70)	Yes	
<b>Maximum</b>			10	8	28.87	(39.27)		
<b>Minimum (excluding outlier, if any)</b>			1	Nil	(27.80)	(0.10)		
<b>Average (excluding outlier, if any)</b>			4.23	3.28	3.66	(11.11)		
<b>The Company</b>	<b>1 April 2021</b>	<b>HK\$150,000,000</b>	<b>2</b>	<b>1</b>	<b>Nil</b>	<b>(41.40)</b>	<b>Yes</b>	

Source: the Stock Exchange's website



## LETTER FROM GRAM CAPITAL

*Notes:*

1. The dilution effect to public shareholders is calculated by the percentage interest of the public shareholders as at the date of announcement minus the same after the number of shares being enlarged by conversion of the convertible bonds/notes.
2. Maturity date is 16 March 2025.
3. The convertible bonds will bear interest on their outstanding principal amount at a fixed rate of between (and including) 2 per cent. per annum to (and including) 4 per cent. per annum, to be agreed between the issuer and the placing agent prior to the closing date. We applied 3% for calculation of the average interest rate of the CB Comparables.

We noted from the above table that the conversion prices of the CB Comparables ranged from a discount of approximately 27.80% to a premium of approximately 28.87% with average premium of approximately 3.66% (excluding the case of China Oil Gangran Energy Group Holdings Limited (stock code: 8132) which we considered to be an outlier) to/over the respective closing prices of the shares on the last trading day prior to the date of agreement in relation to the respective placing/subsorption of convertible bonds/notes (the “**Discount/Premium Market Range**”). As such, the Conversion Price, which equals to the closing price of the Shares on the Last Trading Day, falls within the Discount/Premium Market Range. Therefore, we are of the opinion that the Conversion Price is in line with the market practice.

Having also considered that the Conversion Price of HK\$0.03 is within the range of the lowest and highest closing prices of Shares during the Review Period, we consider the Conversion Price of HK\$0.03 to be fair and reasonable.

We noticed the LPD Discount. Nevertheless, the Conversion Price was fixed when the Company and the Subscriber entered into the Subscription Agreement. At that time, neither the Company nor the Subscriber could anticipate the Share price movement after the date of the Subscription Agreement. The Conversion Price was fixed at no premium or discount over/to the closing price of HK\$0.03 per Share as quoted on the Stock Exchange on 31 March 2021, being the Last Trading Day prior to the date of the Subscription Agreement. Accordingly, we consider that the LPD Discount does not affect our above conclusion on the fairness and reasonableness of the Conversion Price.

*Analysis on the interest rate*

As presented by the table above, the CB Comparables had an annual interest rate from nil to 8% (the “**CB Interest Market Range**”) and the Convertible Bonds will bear 1% interest. The interest rate of the Convertible Bonds falls within the CB Interest Market Range and we consider that such interest rate is in the interest of the Company and is fair and reasonable.

## LETTER FROM GRAM CAPITAL

### *Other terms of the Subscription*

For further details and terms of the Subscription, please refer to the section headed “B. CONNECTED TRANSACTION — THE CONVERTIBLE BONDS ISSUANCE” of the Board Letter.

Taking into account the principal terms of the Subscription as highlighted above, we are of the view that the terms of the Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### **3. Possible dilution effect on the shareholding interests of the public Shareholders**

As illustrated by the shareholding table contained under the section headed “4. Effect on the Shareholding Structure of the Company” of the Board Letter, the shareholding interests of the public Shareholders would be diluted by approximately 41.4 percentage points as a result of the Subscription (assuming the Convertible Bonds have been fully converted). In this regard, taking into account (i) the reasons for the Subscription; and (ii) the terms of the Subscription being fair and reasonable, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders as a result of the Subscription is justifiable.

### **RECOMMENDATION**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Subscription is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Subscription and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

*Note:* Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

**I. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

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

**II. SHARE CAPITAL**

The authorised and issued share capital of the Company of HK\$0.05 each as at (i) the Latest Practicable Date; (ii) immediately upon completion of the Share Capital Increase; (iii) immediately upon completion of Capital Reorganization and (iv) immediately upon full conversion of the Convertible Bonds would be as follows:

<i>Authorized:</i>	<i>Nominal value (HK\$)</i>
8,000,000,000 Shares (as of the Latest Practicable Date)	400,000,000
12,000,000,000 Shares (immediately upon completion of the Share Capital Increase, assuming that there will be no other change in the issued share capital of the Company)	600,000,000
12,000,000,000 Shares (immediately upon completion of the Capital Reorganization, assuming that there will be no other change in the issued share capital of the Company)	120,000,000
<i>Issued and to be issued, fully paid or credited as fully paid:</i>	
3,819,705,413 Shares in issue as at the Latest Practicable Date	190,985,270.65
3,819,705,413 Shares in issue upon completion of the Capital Reorganization (assuming that there will be no other change in the issued share capital of the Company)	38,197,054.13
5,000,000,000 Conversion Shares to be allotted and issued upon conversion of the Convertible Bonds	50,000,000
<u>8,819,705,413</u> Total	<u>88,197,054.13</u>

All the issued Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital. The Conversion Shares to be issued upon conversion of the Convertible Bonds shall rank *pari passu* in all respects with the Shares then in issue.

Each Share carries the right to one vote at any meeting of the Shareholders. As at the Latest Practicable Date, there were no classes of shares of the Company, other than the Shares, entitled to vote at the SGM.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

Save as disclosed in this circular, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

### III. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (as defined in 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 they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code were as follows:

Name of Directors	Nature of Interest	Total Number of Shares	Approximate Percentage of Shareholding in Issued Share Capital of the Company as at the Latest Practicable Date
Mr. Liu Yang <sup>(1)</sup>	Interest of corporation controlled	1,030,170,000 (L)	26.97%

*Notes:*

- (1) As at the Latest Practicable Date, Mr. Liu Yang owned 100% interest in Yuanyin ESOP Limited. Yuanyin ESOP Limited held 37.60% voting rights in Yuanyin Holdings Limited. As such, Mr. Liu Yang was deemed to be interested in 1,030,170,000 shares which Yuanyin ESOP Limited was interested in pursuant to the SFO.
- (2) (L) — long position.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (as defined in 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 or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code.

**IV. SUBSTANTIAL SHAREHOLDERS' INTERESTS**

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company and as required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or as recorded in the register required to be kept under Section 336 of the SFO, the interests or short positions of persons other than the Directors and chief executive of the Company in the Shares and underlying Shares of the Company were as follows:

<b>Name of Substantial Shareholders</b>	<b>Nature of Interest</b>	<b>Total Number of Shares</b>	<b>Approximate Percentage of Shareholding in Issued Share Capital of the Company as at the Latest Practicable Date</b>
Yuanyin ESOP Limited <sup>(1)</sup>	Interest of corporation controlled	1,030,170,000 (L)	26.97%
Yuanyin Holdings Limited <sup>(2)</sup>	Beneficial owner	1,011,000,000(L)	26.47%
	Interest of corporation controlled	19,170,000(L)	0.50%
Zhao Jian Yun	Beneficial owner	357,142,857(L)	9.35%
Meng Hao Xiang	Interest of spouse	769,338,000(L)	9.35%
Shao Yong Chao	Beneficial owner	300,000,000(L)	7.85%
Cao Hai Xia	Interest of spouse	300,000,000(L)	7.85%

*Notes:*

- (1) As at the Latest Practicable Date, Yuanyin ESOP Limited held 37.60% voting rights in Yuanyin Holdings Limited. As such, Yuanyin ESOP Limited was deemed to be interested in 1,030,170,000 Shares which Yuanyin Holdings Limited was interested in.
- (2) As at the Latest Practicable Date, the 1,030,170,000 Shares which Yuanyin Holdings was interested in under Part XV of the SFO include (i) 1,011,000,000 Shares directly held by Yuanyin Holdings; and (ii) 19,170,000 Shares indirectly held through Yuanyin International Limited (a wholly-owned subsidiary of Yuanyin Holdings).
- (3) (L) — long position.

Save as disclosed above, as at the Latest Practicable Date, the Directors had not been notified by any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## V. DIRECTORS' SERVICE CONTRACTS

Mr. Liu Yang, Mr. Zhou Quan and Mr. Zhao Yun, each being an executive Director of the Company, have entered into contracts of appointment with the Company with no fixed terms, but may be terminated by either party giving three months' written notice or payment in lieu.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which will not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

## VI. COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed below, none of the Directors or their respective close associates was considered by the Company to have interests in businesses which compete with, or might compete with, either directly or indirectly, the businesses of the Group as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder.

As disclosed in the section headed "E. Delineation of Businesses between the Group and the Yuanyin Group" in the "Letter from the Board" set out in this circular, YSL and YAML are subsidiaries of Yuanyin Holdings, and both of which are licensed to carry out Regulated Activities (the "**Competing Business**"). As at the Latest Practicable Date, each of YSL and YAML has been reducing the operation of the Regulated Activities since the first quarter of 2020, and has only been carrying out the Regulated Activities at a minimum level. Since each of (i) Mr. Liu Yang, Mr. Zhou Quan and Mr. Zhao Yun, being the executive Director of the Company; and (ii) Mr. Huang Shuanggang, being the non-executive Director of the Company, is also director of Yuanyin Holdings or its subsidiaries, they are considered to have interest in the Competing Business.

## VII. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save for the Subscription Agreement, particulars of which are disclosed in the "Letter from the Board" set out in this circular, in which Mr. Liu Yang, Mr. Zhou Quan, Mr. Zhao Yun and Mr. Huang Shuanggang were deemed to have a material interest in the Subscription Agreement, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the date of this circular, which was significant to the business of the Group.

## VIII. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up.

## IX. MATERIAL CONTRACT

During the two years immediately preceding the Latest Practicable Date, the following contract (not being contracts entered into in the ordinary course of business of the Group) was entered into by the Company and/or members of the Group and is or may be material:

- (i) the Subscription Agreement.

## X. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

## XI. EXPERT AND CONSENT

The following are the qualifications of the expert, being the Independent Financial Adviser, who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Gram Capital Limited	a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

As at the Latest Practicable Date, Gram Capital had not withdrawn its written consent to the issue of this circular with the inclusion in this circular of its letter and reference to its name and opinion in the form and context in which they appear in this circular.

## **XII. MISCELLANEOUS**

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company in Hong Kong is situated at 26/F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong.
- (b) The company secretary of the Company is Mr. Chiu Ming King, an executive director of corporate services of Vistra Corporate Services (HK) Limited. Mr. Chiu is a fellow member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version to the extent of such inconsistency.

## **XIII. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection at 26/F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong during normal business hours from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) annual reports of the Group for the financial years ended 31 December 2020 and 2019;
- (c) the letter of advice from Gram Capital to the Independent Board Committee, the text of which is set out on pages 51 to 64 in this circular;



- (d) the letter of recommendation from the Independent Board Committee of the Company to the Independent Shareholders, the text of which is set out on pages 49 to 50 in this circular;
- (e) the written consent from Gram Capital referred to in the section headed “XI. Expert and Consent” in this appendix;
- (f) the material contract referred to in the section headed “IX. Material Contract” in this appendix; and
- (g) this circular.

# NOTICE OF SPECIAL GENERAL MEETING



## 盛源控股有限公司

SHENG YUAN HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

(Stock Code: 851)

## NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**SGM**”) of Sheng Yuan Holdings Limited (the “**Company**”) will be held at 26F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong on Friday, 14 May 2021 at 10:00 a.m. for the purposes of considering and, if thought fit, passing with or without modifications, the following proposed ordinary resolution of the Company.

### ORDINARY RESOLUTIONS

1. “**THAT**

- a. the subscription agreement dated 1 April 2021 entered into between the Company and Yuanyin Holdings Limited (the “**Subscriber**”)(the “**Subscription Agreement**”) (a copy of which is produced to the SGM marked “A” and signed by the chairman of the SGM for identification purpose), pursuant to which the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds due 2023 in the aggregate principal amount of HK\$150 million at the interest rate of 1% per annum (the “**Convertible Bonds**”), and all transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- b. subject to and conditional upon (i) the Listing Committee (the “**Listing Committee**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) approving the listing of, and granting permission to deal in, the Conversion Shares (as defined below); and (ii) the fulfilment of other conditions precedent as set out in the Subscription Agreement, the unconditional specific mandate granted to the directors of the Company (the “**Directors**”) to exercise the powers to (i) issue the Convertible Bonds to the Subscriber; and (ii) allot, issue and deal with such Conversion Shares 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, be and are hereby approved and confirmed;

## NOTICE OF SPECIAL GENERAL MEETING

- c. the execution of the Subscription Agreement and any other agreements, documents and actions taken or to be taken in connection with the Subscription (including the allotment and issuance of the Conversion Shares) by any Director, notwithstanding any interest he/she may have in any matters in connection with the Subscription, be and are hereby approved, confirmed and ratified; and
  - d. any Director be and is hereby authorized to, for and on behalf of the Company, execute all such documents, instruments and agreements, under hand or under seal, and do all such acts or things, as they may consider necessary, desirable or expedient to give effect to or in connection with the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issuance of the Conversion Shares), subject to and in accordance with the applicable law and regulations, to approve and make such immaterial variation, amendment, supplement or waiver of immaterial matters relating to the Subscription in the interests of the Corporation and its shareholders as a whole.”
2. “**THAT** the authorized share capital of the Company be and is hereby increased from HK\$400,000,000 to HK\$600,000,000 by the creation of 4,000,000,000 unissued Shares of HK\$0.05 each; and the Directors be and are hereby authorized to, for and on behalf of the Company, execute all such documents, instruments and agreements, and do all such acts or things, as they may consider necessary, desirable or expedient to give effect to the above increase of share capital and matters connected therewith.”

On behalf of the Board  
**Sheng Yuan Holdings Limited**  
**Liu Yang**  
*Chairman*

Hong Kong, 29 April 2021

*Principal place of business in Hong Kong:*

26/F  
No. 238 Dex Voeux Road Central  
Sheung Wan  
Hong Kong

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## NOTICE OF SPECIAL GENERAL MEETING

*Notes:*

1. The resolution at the SGM will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. A shareholder of the Company (the “**Shareholder**”) entitled to attend and vote at the special general meeting (the “**SGM**”) may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a Shareholder.
3. Where there are joint registered holders of any share of HK\$0.05 each in the capital of the Company (the “**Share**”), any one such persons may vote at the SGM, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
4. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company’s Hong Kong branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM.
5. The register of members of the Company will be closed from Tuesday, 11 May 2021 to Friday, 14 May 2021, both days inclusive, during which period no transfer of ordinary shares will be registered. In order to determine the identity of ordinary shareholder(s) who is entitled to attend and vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 10 May 2021.
6. As at the date of this notice, the Board consists of Mr. Liu Yang, Mr. Zhou Quan and Mr. Zhao Yun (all being executive Directors), Mr. Huang Shuanggang (being a non-executive Director), Mr. Zhang Jinfan, Ms. Wen Han Qiuzi and Ms. Huang Qin (all being independent non-executive Directors).