
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Hua Yin International Holdings Limited (the “Company”), you should at once hand this supplemental circular and the enclosed proxy form to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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This supplemental circular appears for information purposes only and does not constitute an invitation or offer to the Shareholders or any other persons to acquire, purchase, or subscribe for securities of Hua Yin International Holdings Limited.

HUA YIN INTERNATIONAL HOLDINGS LIMITED

華音國際控股有限公司

(Incorporated in Bermuda with limited liability)

(stock code: 989)

(I) SUPPLEMENTAL CIRCULAR TO THE CIRCULAR OF THE COMPANY DATED 30 SEPTEMBER 2021 IN RELATION TO CONNECTED TRANSACTION — THE PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;

AND

(II) NOTICE OF ADJOURNED SGM

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

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
泓博資本有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this supplemental circular, unless the context requires otherwise. This supplemental circular shall be read in conjunction with the First Circular dated 30 September 2021. A letter from the Board is set out on pages 2 to 7 of this supplemental circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 8 to 9 of this supplemental circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 10 to 40 of this supplemental circular.

A notice convening the Adjourned SGM to be held at Room 901-905, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong on Friday, 26 November 2021 at 11:00 a.m., is set out on pages SGM-1 to SGM-3 of this supplemental circular. The form of proxy despatched with the First Circular for use at the SGM will remain valid for the Adjourned SGM if you do not intend to change your vote. However, should you intend to lodge a revised form of proxy, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same to (i) in case of those members registered on the Hong Kong branch register: the office of the Company’s branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong; and (ii) in case of those members registered on the principal register in Bermuda: the office of the Company’s principal share registrar, MUFG Fund Services (Bermuda) Limited, c/o Suntera Corporate Services Limited at 18/F, On Building, 162 Queen’s Road Central, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Adjourned SGM or any adjournment thereof. Shareholders should note that the forms of proxy lodged by the Shareholders prior to the date hereof, if completed correctly, shall continue to be valid but will be superseded and become invalid in the event that the same Shareholder has lodged an additional form of proxy with the Company’s branch share registrar in Hong Kong, Tricor Abacus Limited. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Adjourned SGM or any adjournment thereof should you so wish.

Should there be any discrepancy between the English and Chinese versions, the English version shall prevail.

PRECAUTIONARY MEASURES FOR THE ADJOURNED SGM

Please see page ii of this supplemental circular and note 7 of the Notice of Adjourned SGM for measures being taken to prevent and control the spread of the COVID-19 pandemic at the Adjourned SGM, including but not limited to:

- (1) Compulsory body temperature checks and health declarations
- (2) Requirement of wearing a surgical face mask
- (3) Maintaining appropriate distancing and spacing between seats
- (4) No provision of refreshments or drinks and corporate gift

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

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PRECAUTIONARY MEASURES FOR THE ADJOURNED SGM

To safeguard the health and safety of the attending Shareholders, staff and other stakeholders and prevent the spreading of the COVID-19 pandemic, the Company will implement the following precautionary measures at the Adjourned SGM:

1. Compulsory body temperature checks will be conducted on every attendee at the entrance of the Adjourned SGM venue. Any person with a body temperature of over 37.5 degrees Celsius will be requested to stay in an isolated place for completing the voting procedures.
2. Attendees will be asked to declare (a) if he/she has travelled outside of Hong Kong within 14 days immediately before the Adjourned SGM; and (b) if he/she is subject to any Hong Kong Government prescribed quarantine requirement. Any person who responds positively to (a) and/or (b) above will be denied entry into the Adjourned SGM venue.
3. Every attendee will be required to wear a surgical face mask throughout the Adjourned SGM and inside the Adjourned SGM venue. Attendees are advised to maintain appropriate social distance with each other at all times when attending the Adjourned SGM. Please note that no masks will be provided at the Adjourned SGM venue and attendees should wear their own masks.
4. Seating at the Adjourned SGM will be arranged so as to maintain appropriate distancing and spacing between seats.
5. No refreshments or drinks will be served, and there will be no corporate gift.

To the extent permitted by law, the Company reserves the right to deny entry to any person into the Adjourned SGM venue or require any person to leave the Adjourned SGM venue so as to ensure the health and safety of the attendees at the Adjourned SGM.

In light of the outbreak of the COVID-19 pandemic, the Company would like to remind Shareholders that physical attendance in the Adjourned SGM is not necessary for the purpose of exercising voting rights. Shareholders may consider to appoint the chairman of the Adjourned SGM as their proxy to vote on the relevant resolution(s) as an alternative to attending the Adjourned SGM in person.

The Company will closely monitor the development of the COVID-19 pandemic and ensure that the Adjourned SGM will be conducted in compliance with the laws, regulations, and measures introduced by the Hong Kong Government from time to time. Shareholders are also advised to monitor the development of COVID-19 pandemic. Subject to the development of COVID-19 pandemic, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

DEFINITIONS

Capitalised terms used in this supplemental circular shall have the meanings as defined in the First Circular unless the context otherwise requires. Moreover, in this supplemental circular, the following terms shall have the following meanings:

“Adjourned SGM”	the adjourned special general meeting of the Company to be convened and held for the purpose of considering, and if thought fit, passing the resolutions to approve the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate)
“First Circular”	the circular of the Company dated 30 September 2021 which contains, amongst other things, the details of the proposed issue of the Convertible Bonds under the Specific Mandate
“New Latest Practicable Date”	9 November 2021, being the latest practicable date prior to the printing of this supplemental circular for ascertaining certain information referred to in this supplemental circular
“Supplemental Agreement”	the supplemental agreement to the Subscription Agreement dated 22 October 2021 entered into by the Company and the Subscriber, to amend certain terms and conditions of the Convertible Bonds in relation to the maturity and redemption of the Convertible Bonds

LETTER FROM THE BOARD

HUA YIN INTERNATIONAL HOLDINGS LIMITED

華音國際控股有限公司

(Incorporated in Bermuda with limited liability)

(stock code: 989)

Executive Directors:

Ms. Cui Xintong (*Chairperson*)
Mr. Li Junjie (*Chief Executive Officer*)
Mr. Cong Peifeng
Mr. Xu Yingchuan

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

Mr. Tsang Hung Kei
Mr. Zhu Zuoan
Mr. Wang Xiaochu

*Head office and principal
place of business:*

Room 1305, 13th Floor
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

11 November 2021

To the Shareholders and, for information purpose only, the holder of options and convertible preference shares of the Company

Dear Sir or Madam,

**(I) SUPPLEMENTAL CIRCULAR TO THE CIRCULAR
OF THE COMPANY DATED 30 SEPTEMBER 2021 IN RELATION TO
CONNECTED TRANSACTION — THE PROPOSED ISSUE OF CONVERTIBLE
BONDS UNDER SPECIFIC MANDATE;
AND
(II) NOTICE OF ADJOURNED SGM**

INTRODUCTION

This supplemental circular should be read together with the First Circular dated 30 September 2021 which contains, amongst other things, the details of the proposed issue of the Convertible Bonds by the Company to the Subscriber under the Specific Mandate.

References are made to (i) the Announcement of the Company dated 7 September 2021, in relation to, among others, the Subscription Agreement the Company entered into with the Subscriber on 7 September 2021 (after trading hours); (ii) the First Circular; (iii) the announcement of the Company dated 18 October 2021, in relation to, among others, the proposed adjournment of the SGM scheduled to be held on 19 October 2021 at 11:15 a.m. (or immediately after the conclusion or the adjournment of the special general meeting of the Company to be held at 11:00 a.m. on the same day at the same venue); (iv) the announcement of the Company dated 19 October 2021 in relation to, among others, the poll results of the adjournment of the SGM; and (v) the announcement of the Company dated 22 October 2021, in relation to, among others, the Supplemental Agreement to the Subscription Agreement entered into by the Company and the Subscriber on 22 October 2021, respectively.

LETTER FROM THE BOARD

ADDITIONAL UPDATES ON THE INFORMATION DISCLOSED IN THE FIRST CIRCULAR

The purpose of this supplemental circular is to provide you with, among other things, (i) further details of the Supplemental Agreement and the transactions contemplated thereunder; (ii) a letter of recommendations from the Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate); (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate); and (iv) a notice convening the Adjourned SGM.

Save as disclosed below, there is no change to any of the information set out in the First Circular, if such information were being stated by reference to the New Latest Practicable Date instead of the Latest Practicable Date.

THE SUPPLEMENTAL AGREEMENT

On 7 September 2021 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which, subject to the fulfilment of the conditions precedents, the Subscriber agreed to subscribe for, and the Company agreed to issue, the Convertible Bonds with an aggregate principal amount of HK\$103,076,730.

As disclosed in the announcement of the Company dated 22 October 2021, following the re-negotiation between the Company and the Subscriber in relation to certain terms and conditions of the Convertible Bonds, on 22 October 2021 (after trading hours), the Company and the Subscriber entered into the Supplemental Agreement, pursuant to which the parties have agreed to amend the terms in relation to the maturity and redemption of the Convertible Bonds. The principal terms of the Supplemental Agreement are as follow.

Date: 22 October 2021

Parties:

- (i) the Company, as issuer; and
- (ii) the Subscriber, as subscriber.

LETTER FROM THE BOARD

Maturity date:

the date falling on the end of a period of eighteen months from the date of issue of the Convertible Bonds (the “**New Maturity Date**”), which may, subject to the Bondholder’s written consent which shall not be unreasonably withheld, be extended for another eighteen months by notice issued by the Company at any time during the three months prior to the New Maturity Date by serving at least thirty days’ prior written notice (the “**Extension Notice**”) to the Bondholder(s) in accordance with the terms of the Instrument that the New Maturity Date shall be extended for another eighteen months to the third anniversary of the date of issue of the Convertible Bonds, in the event the Board is of the reasonable opinion that the redemption of the Convertible Bonds on the New Maturity Date will result in the Company and its subsidiaries (taking as a whole) not having sufficient working capital for the operation for the next twelve months, pursuant to the terms of the Instrument, and the Bondholder must provide its written consent to the extension, or a clear indication in writing that the consent would not be given, within ten days from the date of issue of the Extension Notice.

Save and except for the above changes and other consequential change(s), all other terms and provisions of the Subscription Agreement and the terms and conditions of the Convertible Bonds as set out in the First Circular shall remain the same and unchanged and the Subscription Agreement shall remain in full force and effect.

REASONS FOR ENTERING INTO THE SUPPLEMENTAL AGREEMENT

On or about 18 October 2021, the Company had been notified by the Subscriber that one of the conditions precedents of the Subscription Agreement, namely, the obtaining of the necessary consent required to be obtained on the part of the Subscriber in respect of the Subscription and the transactions contemplated thereunder, cannot be fulfilled based on the original proposed terms and conditions of the Convertible Bonds. The Company was given to understand that as the Subscriber pledged the Shareholder’s Loan to a lender (the “**Subscriber’s Lender**”) of the Subscriber as security in connection with certain loan obtained by the Subscriber from the Subscriber’s Lender, the setting off of the Shareholder’s Loan payable by the Company to the Subscriber to satisfy the principal amount of the Convertible Bonds under the Subscription requires the consent of the Subscriber’s Lender. The Board (excluding Ms. Cui Xintong) considers that the revised terms and conditions of the Convertible Bonds regarding the maturity date of the Convertible Bonds remain to be fair and reasonable, and is beneficial to the Company and its Shareholders, as it continues to represent a mean to defer the potential cash outflow in respect of the repayment of the Shareholder’s Loan (which is repayable on demand) beyond one year, and the Company shall have an option to extend the maturity date for another 18 months subject to the consent of the Bondholder which shall not be unreasonably withheld. In light of the reasons and benefits for the Subscription as detailed in the Announcement and the First Circular, the Board (except Ms. Cui Xintong) is of the view that it would be in the interests of the Company and its Shareholders as a whole to continue with the transactions under the Subscription. As such, the Company had re-negotiated with the Subscriber the terms and conditions of the Convertible Bonds.

LETTER FROM THE BOARD

As informed by the Subscriber, all necessary consent required to be obtained on its part in respect of the Subscription and the transactions contemplated thereunder had been obtained as at the New Latest Practicable Date.

Accordingly, the Directors (excluding Ms. Cui Xintong who is the ultimate beneficial owner of the Subscriber and is deemed to have a material interest in the Supplemental Agreement and the transactions contemplated thereunder and abstained from voting on the relevant resolution at the Board meeting, but including the members of the Independent Board Committee) consider that the terms of the Supplemental Agreement, which have been arrived at after arm's length negotiation between the Company and the Subscriber, are fair and reasonable and that the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

As at the New Latest Practicable Date, save for the conditions precedent set out in paragraph (c) under the section headed "Conditions precedent" in the First Circular, namely, all necessary consent and approvals required to be obtained on the part of the Subscriber in respect of the Subscription and the transactions contemplated thereunder having been obtained, having been fulfilled, none of the conditions precedent of the Subscription Agreement (as amended by the Supplemental Agreement) has been fulfilled.

ADJOURNED SGM

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of (i) the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate); (ii) the Supplemental Agreement and the transactions contemplated thereunder; and (iii) the connected transaction regarding the Subscription (including the grant of the Specific Mandate) under the Listing Rules. Rainbow Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate).

The Adjourned SGM will be held at Room 901-905, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong, on Friday, 26 November 2021 at 11:00 a.m. for the Independent Shareholders to consider and, if thought fit, to approve by way of poll, among other matters, the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate).

The notice of the Adjourned SGM is set out on pages SGM-1 to SGM-3 of this supplemental circular.

LETTER FROM THE BOARD

The form of proxy despatched with the First Circular for use at the SGM will remain valid for the Adjourned SGM if you do not intend to change your vote. However, should you intend to lodge a revised form of proxy, you are requested to complete and return the form of proxy enclosed with this supplemental circular in accordance with the instructions printed thereon and return it as follows:

- (i) in case of those members registered on the principal register in Bermuda: at the office of the Company's principal share registrar, MUFG Fund Services (Bermuda) Limited, c/o Suntera Corporate Services Limited at 18/F, On Building, 162 Queen's Road Central, Central, Hong Kong; and
- (ii) in case of those members registered on the Hong Kong branch register: at the office of the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong,

as soon as possible but in any event in both cases, not less than 48 hours before the time appointed for the holding of the Adjourned SGM or any adjournment thereof. Shareholders should note that the forms of proxy lodged by the Shareholders prior to the date hereof, if completed correctly, shall continue to be valid but will be superseded and become invalid in the event that the same Shareholder has lodged an additional form of proxy with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Adjourned SGM or at any adjournment thereof (as the case may be) if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

The Subscriber and parties acting in concert with it and their respective associates, being interested in the transactions contemplated under the Subscription Agreement and the Supplemental Agreement, shall abstain from voting for the resolution to approve the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder at the Adjourned SGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as disclosed above, no other Shareholder has a material interest in the Subscription and shall be required to abstain from voting at the Adjourned SGM in respect of the relevant resolution(s).

RECORD DATE

Any Shareholders whose names are on the register of members of the Company on Monday, 18 October 2021 are entitled to attend and vote at the Adjourned SGM, regardless of whether he/she/it attended the original SGM held at 11:15 a.m. on 19 October 2021, and regardless of whether he/she/it appointed a proxy, a corporate representative or an attorney to attend in his/her/its stead. Any Shareholder entitled to attend and vote at the Adjourned SGM is entitled to appoint a proxy to attend and vote instead of him/her/it at the Adjourned SGM. A proxy need not be a Shareholder. A Shareholder who is the holder of two or more Shares may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 8 to 9 of this supplemental circular which contains its recommendation to the Independent Shareholders in relation to Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder, and the letter from Rainbow Capital set out on pages 10 to 40 of this supplemental circular which contains its advice to the Independent Board Committee and the Independent Shareholders in this regard.

The Directors (excluding Ms. Cui Xintong who abstained from voting, but including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this supplemental circular) consider that the terms of the Subscription Agreement, the Supplemental Agreement and the transactions contemplated thereunder (including the granting of the Specific Mandate for the allotment and issue of the Conversion Shares) are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the proposed resolution in relation to the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder at the Adjourned SGM.

WARNING

Completion of the Subscription Agreement (as amended by the Supplemental Agreement) is subject to the satisfaction of the conditions set out in the paragraph headed “Conditions precedent” in the First Circular. Accordingly, the Subscription Agreement (as amended by the Supplemental Agreement) may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

RESPONSIBILITY STATEMENT

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

By order of the Board of
Hua Yin International Holdings Limited
Ng Man Kit Micky
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendations to the Independent Shareholders in relation to the Subscription Agreement, the Supplemental Agreement and the transactions contemplated thereunder.

HUA YIN INTERNATIONAL HOLDINGS LIMITED

華音國際控股有限公司

(Incorporated in Bermuda with limited liability)

(stock code: 989)

11 November 2021

To the Independent Shareholders,

Dear Sir or Madam,

**SUPPLEMENTAL CIRCULAR TO THE CIRCULAR
OF THE COMPANY DATED 30 SEPTEMBER 2021 IN RELATION TO
CONNECTED TRANSACTION — PROPOSED ISSUE OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE**

We refer to this supplemental circular of the Company dated 11 November 2021 (the “**Supplemental Circular**”), of which this letter forms part. Capitalised terms defined in the First Circular and the Supplemental Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders as to whether the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders how to vote at the Adjourned SGM. Details of the Subscription Agreement, the Supplemental Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are set out in the “Letter from the Board” contained in the Supplemental Circular. Rainbow Capital, being the Independent Financial Adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in arriving such advice, are contained in its letter set out on pages 3 to 4 of the Supplemental Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendix to the Supplemental Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having considered the terms of the Subscription Agreement, the Supplemental Agreement) and the transactions contemplated thereunder and the advice and recommendations of Rainbow Capital as contained in its letter set out on pages 10 to 40 of the Supplemental Circular, we consider that the Subscription Agreement and the Supplemental Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and although the Subscription Agreement and the Supplemental Agreement are not in the ordinary and usual course of business of the Group, the transactions contemplated thereunder (including the grant of the Specific Mandate) are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Adjourned SGM to approve the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate).

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Tsang Hung Kei

Mr. Zhu Zuoan

Mr. Wang Xiaochu

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in relation to the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate) which has been prepared for the purpose of inclusion in this circular.

Rainbow Capital (HK) Limited

11 November 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to 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 “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 30 September 2021 (the “**First Circular**”) and 11 November 2021 (the “**Supplemental Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 7 September 2021 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber pursuant to which, the Subscriber conditionally agreed to subscribe for and the Company conditionally agreed to issue the Convertible Bonds in an aggregate principal amount of HK\$103,076,730 which are convertible into up to 264,299,307 Conversion Shares at the initial Conversion Price of HK\$0.39 (subject to adjustments) per Conversion Share. The subscription amount payable by the Subscriber under the Subscription Agreement shall be satisfied by way of setting off the Shareholder’s Loan payable by the Company to the Subscriber on a dollar-to-dollar basis. The Shareholder’s Loan is unsecured, interest-free and repayable on demand.

On 22 October 2021 (after trading hours), following the renegotiation between the Company and the Subscriber in relation to certain terms and conditions of the Convertible Bonds, the Company and the Subscriber entered into the Supplemental Agreement, pursuant to which the parties have agreed to amend the terms in relation to the maturity and redemption of the Convertible Bonds.

As at the New Latest Practicable Date, the Subscriber is a controlling Shareholder which was interested in 3,225,427,430 Shares, representing approximately 47.68% of the issued share capital of the Company, and 439,352,941 Convertible Preference Shares carrying right to convert into Shares. As such, the Subscriber is a connected person of the Company. Accordingly, the Subscription

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

constitutes a connected transaction for the Company under the Listing Rules, which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Subscriber and parties acting in concert with it and their respective associates shall abstain from voting on the relevant resolution to approve the Subscription (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate) at the Adjourned SGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Tsang Hung Kei, Mr. Zhu Zuoan and Mr. Wang Xiaochu, has been formed to advise the Independent Shareholders on whether (i) the Subscription is in the ordinary and usual course of business of the Group; (ii) the terms of the Subscription (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Subscription is in the interests of the Company and the Shareholders as a whole, and as to voting at the Adjourned SGM. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the New Latest Practicable Date, we did not have any relationships or interests with the Group or the Subscriber that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or the Subscriber. Accordingly, we are qualified to give independent advice in respect of the Subscription.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all the statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the New Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In arriving at our opinion and recommendation, we have reviewed, among other things, the Subscription Agreement, the Supplemental Agreement, the terms of the Acquisition Convertible Bonds (as defined below), the public announcements and circular of the Company regarding the background of the Subscription, the annual reports of the Company for the two years ended 31 March 2021, the historical Share price performance and trading volumes of the Shares, the terms of the CB Comparables (as defined below) and other information as set out in the Circular. We have also discussed with the management of the Group regarding the background, reasons for and benefits of the Subscription. As such, we have no reason to believe that any information relied on by us in forming our opinion is not true or omits a material fact.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Subscriber or any of their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Subscription Agreement (as amended by the Supplemental Agreement) are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background of the Group

The Group is principally engaged in (i) property development and management including planning, designing, budgeting, licensing, contract tendering and contract administration; and (ii) property investment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the consolidated financial information of the Group for the three years ended 31 March 2021 as extracted from the annual reports of the Company for the year ended 31 March 2021 (the “**2021 Annual Report**”) and for the year ended 31 March 2020, respectively:

(i) Financial performance

	For the year ended 31 March		
	2019	2020	2021
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
	(audited)	(audited)	(audited)
Continuing operations			
Revenue	654,469	242,685	153,336
– Sale of properties	599,495	186,862	107,142
– Property management service income	32,328	35,231	34,913
– Rental income	22,646	20,592	11,281
Gross profit/(loss)	174,504	(44,553)	(84,509)
Other income and gains	2,001	43,458	1,458
Selling and distribution expenses	(12,413)	(7,150)	(9,022)
Administrative expenses	(54,606)	(50,363)	(33,149)
Finance costs	(19,532)	(103,362)	(105,132)
Other expenses	(13,257)	(1,213,529)	(232,676)
Change in fair value of investment properties	20,538	(189,015)	(45,800)
Change in fair value of derivative financial instruments	(11,045)	(4,976)	(69)
Profit/(loss) attributable to the Shareholders	23,046	(1,784,374)	(515,199)
– continuing operations	11,553	(1,367,491)	(515,199)
– discontinued operation	11,493	(416,883)	–
Net cash flows used in operating activities	(154,274)	(105,434)	(201,577)

Year ended 31 March 2021 (“FY2021”) compared to year ended 31 March 2020 (“FY2020”)

For FY2021, the Group’s revenue from continuing operations was approximately RMB153.3 million, representing a decrease of approximately 36.8% from approximately RMB242.7 million for FY2020. Such decrease was primarily attributable to the decrease in sale of properties by approximately 42.7% from approximately RMB186.9 million for FY2020 to approximately RMB107.1 million for FY2021 as a result of (a) the fact that there were no property projects newly completed and delivered during FY2021; and (b) the gradual decrease in sales and delivery of the remaining units of completed property projects in prior years.

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The decrease in property management service income by approximately 0.9% from approximately RMB35.2 million for FY2020 to approximately RMB34.9 million for FY2021 was primarily attributable to the decrease in the number of managed units caused by the decrease in the average occupancy rate in respect of the shopping mall units in Baishan City, the PRC.

Rental income decreased by approximately 45.2% from approximately RMB20.6 million for FY2020 to approximately RMB11.3 million for FY2021, mainly due to (a) the rent-free period offered to tenants in view of the COVID-19 outbreak; (b) the decrease in the average occupancy rate in respect of the shopping mall units in Baishan City, the PRC; and (c) the disposal of certain investment properties in Hong Kong in March 2020.

The Group recorded a gross loss of approximately RMB84.5 million for FY2021, representing an increase of approximately 89.7% from approximately RMB44.6 million for FY2020, primarily contributed by (a) the sales of certain car park units of certain projects at a loss; and (b) further write-downs of approximately RMB43.6 million mainly on the remaining car park units at various property projects.

Loss attributable to the Shareholders decreased significantly from approximately RMB1,784.4 million for FY2020 to approximately RMB515.2 million for FY2021. Such decrease was mainly due to (a) the decrease in administrative expense by approximately RMB17.2 million primarily attributable to the decrease in travelling expenses caused by the travel restriction during the COVID-19 outbreak and the decrease in office expense as a result of the continual cost control implemented by the Group; (b) the decrease in other expenses by approximately RMB980.9 million primarily attributable to the decrease in write-downs of the Group's certain property projects in Jilin City and impairment loss on receivables; (c) the decrease in change in fair value of investment properties by approximately RMB143.2 million; and (d) the decrease in change in fair value of derivative financial instruments by approximately RMB4.9 million. This was partially offset by (a) the increase in gross loss by approximately RMB40.0 million as mentioned above; (b) the decrease in other income and gains by approximately RMB42.0 million primarily attributable to the one-off gain on disposal of subsidiaries of approximately RMB38.5 million and the property tax refund of approximately RMB3.3 million for FY2020; (c) the increase in selling and distribution costs by approximately RMB1.9 million primarily attributable to the increase in the promotional and advertising expenses incurred for the new property project in Jiutai District which was launched for per-sale for FY2021; and (d) the increase in finance costs by approximately RMB1.8 million primarily attributable to the increase in interest rate upon renewal of bank loans and new entrusted loans and the fact that less project loans were qualified for capitalisation as most of the related projects had been completed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As a result of the foregoing, loss attributable to the Shareholders from continuing operations decreased significantly from approximately RMB1,367.5 million for FY2020 to approximately RMB515.2 million for FY2021. Notwithstanding the decrease in loss, the Group recorded an increase in net cash flows used in operating activities from approximately RMB105.4 million for FY2020 to approximately RMB201.6 million for FY2021, primarily due to the settlement of trade and construction cost payables and interest expenses during FY2021.

FY2020 compared to year ended 31 March 2019 (“FY2019”)

For FY2020, revenue of the Group was approximately RMB242.7 million, representing a decrease of approximately 62.9% from approximately RMB654.5 million for FY2019. Such decrease was primarily attributable to the decrease in sale of properties by approximately 68.8% from approximately RMB599.5 million for FY2019 to approximately RMB186.9 million for FY2020 as a result of the fact that there were no property projects newly completed and delivered during FY2020, which was partially offset by a slight increase in sales and delivery of the remaining units of completed property projects in prior years.

The increase in property management service income by approximately 9.0% from approximately RMB32.3 million for FY2019 to approximately RMB35.2 million for FY2020 was primarily attributable to the increase in the number of units sold and delivered on completed property projects during FY2020.

Rental income decreased by approximately 9.1% from approximately RMB22.6 million for FY2019 to approximately RMB20.6 million for FY2020, mainly due to the decrease in the average occupancy rate in respect of the shopping mall units in Baishan City, the PRC.

The Group recorded a gross loss of approximately RMB44.6 million for FY2020, as compared to a gross profit of approximately RMB174.5 million for FY2019, primarily contributed by (a) the sales of certain car park units of certain projects at a loss; and (b) further write-downs of approximately RMB12.8 million mainly on the remaining car park units at various property projects.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded a loss attributable to the Shareholders of approximately RMB1,784.4 million for FY2020 as compared to a profit attributable to the Shareholders of approximately RMB23.0 million for FY2019, primarily attributable to (a) the gross loss of approximately RMB44.6 million for FY2020 as mentioned above; (b) the increase in finance costs by approximately RMB83.8 million mainly due to (1) the increase in interest rate upon renewal of bank loans and new entrusted loans; (2) the fact that the project loans were no longer qualified for capitalisation as the related projects had been completed; and (3) the interest on lease liabilities upon adoption of the relevant accounting standard from April 2019; (c) the increase in other expenses by approximately RMB1,200.3 million mainly due to the write-downs of approximately RMB877.6 million in relation to some of the Group's property projects caused by an unfavorable change in the operating environment followed by the COVID-19 pandemic and the significant increase in impairment loss on receivables by approximately RMB290.3 million as a result of the worsening local economic environment in Jilin Province; and (d) the loss in fair value of investment properties of approximately RMB189.0 million due to (1) the weakening property and leasing market caused by the COVID-19 pandemic and the social events in Hong Kong; and (2) the adverse change in market sentiment in the PRC caused by the COVID-19 pandemic. This was partially offset by (a) the increase in other income and gains by approximately RMB41.5 million mainly due to the one-off gain on disposal of subsidiaries of approximately RMB38.5 million and the property tax refund of approximately RMB3.3 million for FY2020; (b) the decrease in selling and distribution expenses by approximately RMB5.3 million mainly due to the decrease in the promotional and advertising expenses as no new property project was launched for pre-sale for FY2020; (c) the decrease in administrative expenses by approximately RMB4.2 million given the continual cost control implemented by the Group; and (d) the decrease in loss in fair value of derivatives financial instruments by approximately RMB6.1 million.

As a result of the foregoing, loss attributable to the Shareholders from continuing operations recorded approximately RMB1,367.5 million for FY2020 as compared to a profit attributable to the Shareholders from continuing operations of approximately RMB11.6 million for FY2019. As a result of the interest expenses paid, the Group recorded net cash flows used in operating activities of approximately RMB105.4 million for FY2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Financial position

	2019	As at 31 March	
	<i>RMB '000</i>	2020	2021
	(audited)	(audited)	(audited)
Non-current assets, including:	1,073,780	598,813	563,016
– Investment properties	997,531	550,000	547,100
Current assets, including:	3,756,894	1,957,021	1,718,265
– Properties under development and completed properties held for sale	2,576,578	1,600,263	1,211,824
– Trade and other receivables	944,272	291,850	39,681
– Pledged and restricted deposits	189,055	19,009	8,715
– Cash and cash equivalents	30,064	30,500	117,938
– Assets associated with disposal group classified as held for sale	–	–	334,018
Total assets	4,830,674	2,555,834	2,281,281
Current liabilities, including:	1,646,476	1,785,868	1,851,429
– Trade and other payables	683,571	647,505	507,210
– Contract liabilities	273,890	234,526	227,910
– Loans from a controlling shareholder	149,065	105,891	121,415
– Bank and other borrowings	464,081	695,497	448,497
– Liability component of the convertible bonds	–	–	72,879
– Liabilities associated with disposal group classified as held for sale	–	–	393,677
Net current assets/(liabilities)	2,110,418	171,153	(133,164)
Non-current liabilities, including:	855,887	318,050	443,559
– Liability component of the convertible bonds	62,962	73,155	–
– Bank and other borrowings	477,586	170,690	351,593
– Deferred tax liabilities	315,339	72,189	59,284
Total liabilities	2,502,363	2,103,918	2,294,988
Equity attributable to the Shareholders	2,328,311	451,916	(13,707)
Current ratio	2.3	1.1	0.9
Gearing ratio (Note)	39%	75%	96%

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Note:

Being net debt divided by the sum of net debt, liability component of the convertible bonds and total equity. Net debt refers to the sum of loan from a controlling Shareholder, bank and other borrowings and trade and other payables less the sum of cash and cash equivalents and pledged and restricted deposits.

As at 31 March 2021, the Group's total assets amounted to approximately RMB2,281.3 million, which primarily included (a) investment properties of approximately RMB547.1 million, being self-owned and leased retail shopping units at Guangze International Shopping Centre located at Baishan City, Jilin Province, the PRC; (b) properties under development and completed properties held for sale of approximately RMB1,211.8 million, which are located in Jilin Province, the PRC; (c) cash and cash equivalents of approximately RMB117.9 million; and (d) assets associated with disposal group classified as held for sale of approximately RMB334.0 million, being assets in relation to Ground Real Estate Group Company Limited and its subsidiaries (the **"Disposal Group"**) holding three property development projects (the **"Jilin Projects"**) in Jilin City, Jilin Province, the PRC, of which the disposal was completed in June 2021.

The significant decrease in investment properties from approximately RMB997.5 million as at 31 March 2019 to approximately RMB547.1 million as at 31 March 2021 was primarily due to (a) the disposal of the investment properties in Hong Kong in March 2020; and (b) the net loss on fair value adjustment for FY2020 and FY2021.

Properties under development and completed properties held for sale decreased significantly from approximately RMB2,576.6 million as at 31 March 2019 to approximately RMB1,211.8 million as at 31 March 2021, primarily attributable to (a) the delivery of completed properties for FY2020 and FY2021; and (2) the write-downs in respect of the project under development, namely Ground Pine Township International Resort in Changbaishan, Fusong County (the **"Fusong Project"**), and car parks from the completed property projects resulting from the unfavorable operating environment. As at 31 March 2021, properties under development and completed properties held for sale amounted to approximately RMB949.9 million and RMB261.9 million, respectively.

As at 31 March 2021, the Group had three projects under development and held for development, namely (a) Guangze Jiuxi Red House in Jiutai District, Changchun City; (b) Guangze China House – Phase I(A) in Baishan City; and (c) the Fusong Project. Guangze Jiuxi Red House and Guangze China House – Phase I(A) are residential projects whereas the Fusong Project is a cultural tourism mixed property project. Guangze China House – Phase I(A) and the first phase of Guangze Jiuxi Red House are expected to complete in the fourth quarter of 2021. As disclosed in the 2021 Annual Report, the Directors consider that it is very unlikely for the Group to make any profit out of the Fusong Project and the Group is currently having severe difficulties to further raise funds to finance the future capital expenditure of the Fusong Project in light of the weak financial position of the Group. The Group has been in ongoing discussions with the Fusong Government and potential buyers for the possible divestment of the Fusong Project with a view to alleviating the Group's financial burden.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The significant increase in cash and cash equivalents from approximately RMB30.1 million as at 31 March 2019 to approximately RMB117.9 million as at 31 March 2021 was attributable to the net proceeds of approximately HK\$99.7 million raised from the Company's placing in March 2021 primarily for the settlement of the costs and expenses of the Group's existing property projects and the Group's finance costs.

As at 31 March 2021, the Group's total liabilities amounted to approximately RMB2,295.0 million, which primarily included (a) trade and other payables of approximately RMB507.2 million, mainly representing accrued construction costs and interest payable; (b) contract liabilities of approximately RMB227.9 million, mainly representing deposits received from customers in relation to the Group's pre-sale of properties; (c) loans from a controlling Shareholder of approximately RMB121.4 million which were unsecured, interest-free and repayable on demand; (d) bank and borrowings of approximately RMB800.1 million which comprised secured bank and other loans and entrusted loan bearing fixed interest rates in the range of 5.39% to 12% per annum; (e) the liability component of the convertible bonds of approximately RMB72.9 million; and (f) liabilities associated with the Disposal Group of approximately RMB393.7 million.

Given the continued loss incurred by the Group and the continued decrease in total asset, the Group recorded net liabilities of approximately RMB13.7 million as at 31 March 2021, as compared to net assets of approximately RMB2,328.3 million as at 31 March 2019. The current ratio and gearing ratio of the Group as at 31 March 2021 were approximately 0.9 and 96%, respectively, deteriorating from those as at 31 March 2019.

(iii) Overall comment

Due to the absence of property projects newly completed and delivered and the decrease in the average occupancy rate in respect of the shopping mall units in Baishan City, the PRC, the Group recorded a decrease in revenue by approximately 62.9% and 36.8% for FY2020 and FY2021, respectively. The Group incurred significant loss attributable to the Shareholders from continuing operations of approximately RMB1,367.5 million and RMB515.2 million for FY2020 and FY2021, respectively, primarily caused by the gross loss arising from sales of certain car park units at a loss, write-downs of some of the Group's property projects in Jilin City and remaining car park units, impairment loss on receivables and the increase in finance costs, amid the worsening operating environment followed by the COVID-19 pandemic. In addition, the Group recorded net cash flows used in operating activities of approximately RMB105.4 million and RMB201.6 million for FY2020 and FY2021, respectively. As at 31 March 2021, the Group had net current liabilities and net liabilities of approximately RMB133.2 million and RMB13.7 million, respectively, with a gearing ratio of approximately 96%. These indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, as disclosed in the 2021 Annual Report.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's liquidity position is under pressure as evidenced by its net current liabilities and net liabilities as at 31 March 2021. The current financial resources of the Group are insufficient to meet its short-term liabilities. The current ratio and gearing ratio of the Group have been deteriorating during the period under review.

To cope with these situations, the Group has implemented a series of measures to mitigate its liquidity pressure and improve its financial position. The Group, among other things, (a) has been in negotiation with financial institutions and other lenders for renewals of the Group's short-term bank and other borrowings that expired or upon expiry and obtaining new borrowings; (b) raised net proceeds of approximately HK\$99.7 million under a placing of new shares under general mandate in March 2021 for settlement of the costs and expenses of the Group's existing properties, the Group's finance costs and other operating expenses; (c) completed the disposal of the Jilin Projects in June 2021 with a view to reducing its borrowings and finance costs given the net liabilities position of the Disposal Group; (d) has been obtaining continuous financial support from the controlling Shareholder which confirmed that it will not demand the Company for repayment of the Shareholder's Loan within the next twelve months from 26 July 2021 should the Company not be in the financial position to make such repayment; and (e) has been in ongoing discussions with the Fusong Government and potential buyers for the possible divestment of the Fusong Project. As at the New Latest Practicable Date, the Group's negotiation with financial institutions and other lenders for the renewals of its existing borrowings and its discussion with the Fusong Government and potential buyers for the possible divestment of the Fusong Project were still ongoing and no definitive terms had been agreed among the parties.

We consider that the Subscription serves as one of the Group's measures to relieve its liquidity pressure and the issue of the Convertible Bonds with a maturity of eighteen months and, subject to the Bondholder's written consent, an option to extend for another eighteen months to settle the Shareholder's Loan in the amount of HK\$103,076,730 allows (a) the Group to refinance its debt for a longer term and relieve the Group's liquidity pressure to meet its short-term liabilities in light of its recent loss making and net current liabilities position; and (b) sufficient time for the Group to explore possible repayment or refinancing plans for the Group's existing indebtedness.

2. Background to and reasons for the Subscription

(i) *Background of the Subscription*

On 27 July 2016, the Company issued the five-year convertible bonds (the "**Acquisition Convertible Bonds**") in an aggregate principal amount of HK\$500 million which were due on 27 July 2021 to the Subscriber as part of the consideration for the acquisition of the entire issued share capital of Ka Yun Investments Limited. The Acquisition Convertible Bonds had a coupon rate of 2% per annum payable semi-annually in arrears each year before the maturity date and were convertible into 588,235,294 Shares at an initial conversion price of HK\$0.85 per Share (subject to adjustments).

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On 29 March 2017 and 27 October 2017, the Acquisition Convertible Bonds in the principal amount of HK\$212,500,000 and HK\$199,537,388 were fully converted into 250,000,000 and 234,749,867 Shares at the conversion price of HK\$0.85 per Share, respectively. As at 31 March 2021, the Acquisition Convertible Bonds in the principal amount of HK\$87,962,612 had not yet been converted.

On 26 July 2021, the Subscriber has agreed to provide the Shareholder's Loan of HK\$103,076,730 to the Company as part of the re-financing of the Acquisition Convertible Bonds due on 27 July 2021 with the principal amount of HK\$87,962,612 and accrued interest of HK\$15,114,118. The Shareholder's Loan is unsecured, interest-free and repayable on demand. The Subscriber has confirmed that it will not demand the Company for repayment of the Shareholder's Loan within the next twelve months from 26 July 2021 should the Company not be in the financial position to make such repayment.

On 7 September 2021 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber pursuant to which, the Subscriber conditionally agreed to subscribe for and the Company conditionally agreed to issue the Convertible Bonds in an aggregate principal amount of HK\$103,076,730. The subscription amount payable by the Subscriber under the Subscription Agreement shall be satisfied by way of setting off the Shareholder's Loan payable by the Company to the Subscriber on a dollar-to-dollar basis.

On or about 18 October 2021, the Company had been notified by the Subscriber that one of the conditions precedents of the Subscription Agreement, namely, the obtaining of the necessary consent required to be obtained on the part of the Subscriber in respect of the Subscription and the transactions contemplated thereunder, cannot be fulfilled based on the original proposed terms and conditions of the Convertible Bonds. The Company was given to understand that as the Subscriber pledged the Shareholder's Loan to a lender (the "**Subscriber's Lender**") of the Subscriber as security in connection with certain loan obtained by the Subscriber from the Subscriber's Lender, the setting off of the Shareholder's Loan payable by the Company to the Subscriber to satisfy the principal amount of the Convertible Bonds under the Subscription requires the consent of the Subscriber's Lender.

On 22 October 2021 (after trading hours), following the renegotiation between the Company and the Subscriber in relation to certain terms and conditions of the Convertible Bonds, the Company and the Subscriber entered into the Supplemental Agreement, pursuant to which the parties have agreed to amend the terms in relation to the maturity and redemption of the Convertible Bonds.

(ii) Reasons for and benefits of the Subscription

As mentioned in the section headed "1. Background of the Group" above, the Group recorded loss attributable to the Shareholders and net cash flows used in operating activities for FY2020 and FY2021. The Group had cash and cash equivalents, net current liabilities and net liabilities of approximately RMB117.9 million, RMB133.2 million and RMB13.7 million as at 31 March 2021, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board in the First Circular, the Directors consider that (a) the repayment of the Shareholder's Loan, if requested by the Subscriber after 26 July 2022, will have an adverse impact on the cashflow and financial stability of the Group; and (b) the issue of the Convertible Bonds will enhance the financial position and working capital of the Group, strengthen the Group's capital base and reduce the gearing ratio of the Group if converted, taking into account (1) the Convertible Bonds will be able to reduce the short-term financial burden to the Group as the Subscription allows the Group to reclassify the Shareholder's Loan from current liabilities to non-current liabilities and to defer potential cash outflow in respect of repayment of the Shareholder's Loan such that the Group may have reasonable time to improve its financial position; (2) the Shareholder's Loan will be fully settled upon the exercise in full of the conversion right under the Convertible Bonds; and (3) the issue of the Convertible Bonds does not have an immediate dilution effect on the shareholding of the existing Shareholders.

As disclosed in the Letter from the Board in the Supplemental Circular, the Directors consider that the revised terms and conditions of the Convertible Bonds regarding the maturity date of the Convertible Bonds remain to be fair and reasonable as it continues to represent a mean to defer the potential cash outflow in respect of the Shareholder's Loan (which is repayable on demand) beyond one year and the Company have an option to extend the maturity date for another eighteen months subject to the Bondholder's consent.

We concur with the Directors that the Subscription represents an appropriate measure for the Company to improve its liquidity and is in the interests of the Company and the Shareholders as a whole, after considering the following as a whole:

- (a) as disclosed in the Company's announcement dated 26 July 2021, the Subscriber has confirmed to the Company that it will not demand the Company for repayment of the Shareholder's Loan within the next twelve months, meaning that there exists a possibility that the Subscriber can demand repayment of the Shareholder's Loan any time after 26 July 2022, which creates uncertainty to the operating cash flows of the Group. The longer terms of the Convertible Bonds will provide certainty as to the working capital requirement of the Group and allow sufficient time for the Group to explore possible repayment or refinancing plans for the Group's existing indebtedness;
- (b) the Subscription will not result in an immediate cash outflow of the Group and allows the Group to reclassify the Shareholder's Loan from current liabilities to non-current liabilities, immediately improving the liquidity position of the Group;
- (c) subject to the movement of the Share price, the Subscriber may exercise the conversion rights under the Convertible Bonds, which would reduce the indebtedness of the Group, improving the capital base and gearing ratio of the Group. Under the terms of the Convertible Bonds, the Company has an option to extend the maturity date of the Convertible Bond for another eighteen months subject to the Bondholder's written consent;

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- (d) the Convertible Bonds, which are unsecured, have a coupon rate of 2% per annum which is lower than the fixed interest rates of the Group's existing secured bank and other loans and entrusted loan, in the range of 5.39% to 12% per annum as at 31 March 2021;
- (e) the Conversion Price is set at slight premiums to the prevailing market prices of the Shares whereas considerable discounts to the market prices of the Shares may be required for other alternative means of financing such as a share placement or a rights issue or open offer, details of which are set out in the section headed "4. Assessment of the principal terms of the Subscription – (i) Conversion Price – (b) Average daily trading volume of the Shares" below;
- (f) the terms of the Subscription (including the grant of the Specific Mandate) are fair and reasonable, which are further explained in the sections below; and
- (g) the potential dilution effect of the conversion of the Convertible Bonds on the shareholding of existing public Shareholders in the Company is not material, details of which are set out in the section headed "6. Potential dilution effect on the shareholding interests of the existing public Shareholders" below.

3. Principal terms of the Subscription Agreement, Supplemental Agreement and the Convertible Bonds

(i) *The Subscription Agreement*

Details of the Subscription Agreement (as amended by the Supplemental Agreement) are set out in the Letter from the Board in the First Circular and the Supplemental Circular, which are summarised below:

Date : 7 September 2021 (as amended by the Supplemental Agreement)

Parties : (a) the Company, as issuer; and
(b) the Subscriber, as subscriber

The Subscriber, a controlling Shareholder, is an investment holding company incorporated in the British Virgin Islands which is wholly and beneficially owned by Ms. Cui Xintong, the chairperson of the Board and an executive Director.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Subject : The Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$103,076,730 which will be satisfied by way of setting off the Shareholder's Loan payable by the Company to the Subscriber on a dollar-to-dollar basis by execution of the Deed of Set-off.
- Conditions precedent : Completion of the Subscription Agreement shall be subject to and conditional upon, among other things:
- (a) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares; and
 - (b) the passing of the relevant resolutions by the Independent Shareholders at the Adjourned SGM approving the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder.

(ii) *The Convertible Bonds*

Details of the principal terms of the Convertible Bonds are set out in the Letter from the Board in the First Circular and the Supplemental Circular, which are summarised below:

- Principal amount : HK\$103,076,730
- Interest : 2% per annum and payable semi-annually in arrear in each year

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Maturity Date : The date falling on the end of a period of eighteen months from the issue date of the Convertible Bonds (the “**New Maturity Date**”), which may, subject to the Bondholder’s written consent which shall not be unreasonably withheld, be extended for another eighteen months by notice issued by the Company at any time during the three months prior to the New Maturity Date by serving at least thirty days’ written notice (the “**Extension Notice**”) on the Bondholder(s), so that the New Maturity Date shall be extended for another eighteen months to the third anniversary of the date of issue of the Convertible Bonds (the “**Extended Maturity Date**”), in the event the Board is of the reasonable opinion that the redemption of the Convertible Bonds on the New Maturity Date will result in the Company and its subsidiaries (taking as a whole) not having sufficient working capital for the operation for the next twelve months, pursuant to the terms of the Instrument, and the Bondholder must provide its written consent to the extension, or a clear indication in writing that the consent would not be given, within ten days from the date of issue of the Extension Notice.
- Conversion period : From the date of issue of the Convertible Bonds up to 4:00 p.m. (Hong Kong time) on the New Maturity Date (or the Extended Maturity Date, as appropriate), provided that (a) any conversion of the Convertible Bonds does not result in the public float of the Shares being less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares of the Company; and (b) any conversion of the Bonds shall not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Bondholder which exercised the conversion right and party(ies) acting in concert (as defined under the Takeovers Code) with it.

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- Conversion Shares : Upon exercise of the conversion rights under the Convertible Bonds in full at the Conversion Price of HK\$0.39 (subject to adjustments) per Conversion Share, a total of 264,299,307 Conversion Shares will be issued to the Subscriber, representing:
- (a) approximately 3.91% of the issued share capital of the Company as at the New Latest Practicable Date; and
 - (b) approximately 3.76% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares to the Subscriber, assuming there is no other change to the total number of Shares from the New Latest Practicable Date to the date when the conversion rights of the Convertible Bonds are exercised in full.
- Initial Conversion Price : HK\$0.39 per Conversion Share (subject to adjustments), which was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares
- Adjustments to the Conversion Price : The Conversion Price will from time to time be adjusted in accordance with the relevant provisions under the terms and conditions of the Convertible Bonds upon occurrence of, among other things, share consolidation or sub-division, capitalisation of profits or reserves, capital distribution, an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe for new Shares made to the Shareholders at a price less than 80% of the market price, an issue wholly for cash any convertible securities with total effective consideration per Share less than 80% of the market price or an issue of Shares wholly for cash at a price less than 80% of the market price. Details of the adjustments to the Conversion Price are set out in the Letter from the Board in the First Circular.

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Voting rights	:	The Bondholder will not be entitled to attend or vote at any meetings of the Company by reason only of it being the holder of the Convertible Bonds.
Early redemption	:	The Company may at any time before the New Maturity Date (or the Extended Maturity Date, as appropriate) redeem the Convertible Bonds (in whole or in part) at 100% of the principal amount of such Convertible Bonds.

4. Assessment of the principal terms of the Subscription

(i) *Conversion Price*

The Conversion Price of HK\$0.39 per Conversion Share represents:

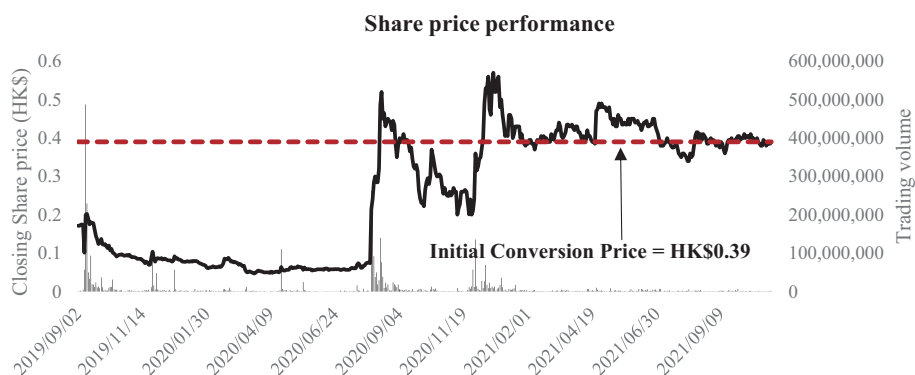
- (a) a premium of approximately 2.63% over the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement (the “**Last Trading Day**”);
- (b) a premium of approximately 1.04% over the average closing price of approximately HK\$0.3860 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 0.39% over the average closing price of approximately HK\$0.3885 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (d) a premium of approximately 2.36% over the average closing price of approximately HK\$0.3810 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 0.66% to the average closing price of approximately HK\$0.3926 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days up to and including the Last Trading Day;
- (f) a discount of approximately 5.06% to the average closing price of approximately HK\$0.4108 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day;
- (g) a discount of approximately 6.97% to the average closing price of approximately HK\$0.4192 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day; and

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- (h) a premium of approximately 27.33% over the average closing price of approximately HK\$0.3063 per Share as quoted on the Stock Exchange for the last 360 consecutive trading days up to and including the Last Trading Day.

(a) *Comparison with historical closing prices of the Shares*

In assessing the fairness and reasonableness of the Conversion Price, we have performed a review on the daily closing prices of the Shares as quoted on the Stock Exchange from 2 September 2019 to the Last Trading Day (being approximately two years) (the “**Review Period**”) and up to the New Latest Practicable Date and compared them with the Conversion Price. We consider the Review Period is adequate to reflect the prevailing market sentiment and illustrates the general trend and level of movement of the daily closing prices of the Shares.



Source: website of the Stock Exchange

During the Review Period, the average closing price of the Shares was approximately HK\$0.2466 per Share (the “**Average Closing Price**”). The closing prices of the Shares ranged from HK\$0.047 per Share (the “**Lowest Closing Price**”) recorded on 23 March 2020 to HK\$0.57 per Share (the “**Highest Closing Price**”) recorded on 22 December 2020 during the Review Period.

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Since the beginning of the Review Period, the Share price had been in a downward trend from HK\$0.202 per Share on 12 September 2019 to HK\$0.047 per Share on 23 March 2020. Afterwards, the closing prices of the Shares remained stable and surged to HK\$0.52 per Share on 17 August 2020 and then declined to HK\$0.2 per Share on 27 November 2020. It rose to HK\$0.57 per Share on 22 December 2020. The Share price then exhibited a downward trend and fluctuated around the Conversion price of HK\$0.39 per Conversion Share. The Shares closed at HK\$0.39 as at the New Latest Practicable Date.

The Conversion Price of HK\$0.39 per Conversion Share represents (1) a premium of approximately 729.79% over the Lowest Closing Price of HK\$0.047 per Share; (2) a discount of approximately 31.58% to the Highest Closing Price of HK\$0.57 per Share; and (3) a premium of approximately 58.15% to the Average Closing Price of approximately HK\$0.2466 per Share for the Review Period. The Shares were closed at or below the Conversion Price in 350 (or approximately 70.14%) out of a total of 499 trading days during the Review Period.

The Conversion Price, in our view, should be determined based on the prevailing market prices of the Shares which have fully reflected the current market conditions and the latest financial performance and position of the Group to provide incentive for possible conversion in the future. Should the conversion rights under the Convertible Bonds be exercised in full by the Subscriber, the Group would settle this liability immediately without requiring any cash outflow. As such, the financial position of the Group would be improved without redeeming the Convertible Bond at maturity.

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(b) Average daily trading volume of the Shares

Apart from historical daily closing prices of the Shares, we have reviewed the average daily trading volume of the Shares for each month since 2020, details of which are set out below:

	Approximate average daily trading volume of the Shares <i>(Number of Shares)</i>	Approximate percentage of average daily trading volume to total number of issued Shares <i>(Note 1)</i>	Approximate percentage of average daily trading volume to total number of issued Shares held by public Shareholders <i>(Note 2)</i>
Year 2020			
January	1,758,351	0.03%	0.11%
February	2,682,100	0.05%	0.17%
March	1,648,682	0.03%	0.11%
April	7,324,474	0.14%	0.47%
May	2,717,700	0.05%	0.18%
June	329,048	0.01%	0.02%
July	2,308,473	0.04%	0.14%
August	54,517,578	0.91%	3.36%
September	5,285,677	0.09%	0.33%
October	3,198,061	0.05%	0.20%
November	5,585,381	0.09%	0.32%
December	21,661,171	0.36%	1.23%
Year 2021			
January	4,775,192	0.08%	0.27%
February	1,276,222	0.02%	0.07%
March	1,922,035	0.03%	0.09%
April	2,941,326	0.04%	0.14%
May	1,827,630	0.03%	0.09%
June	3,450,119	0.05%	0.17%
July	1,815,731	0.03%	0.09%
August	1,660,609	0.02%	0.08%
September	1,741,310	0.03%	0.08%
October	938,714	0.01%	0.05%
1 November to the New Latest Practicable Date	787,143	0.01%	0.04%

Source: website of the Stock Exchange

Notes:

- Based on the total number of issued Shares as at each month end as disclosed in the monthly returns of the Company.
- Based on the number of Shares held by public Shareholders calculated by deducting the Shares held by the Subscriber, Charm Success Group Limited and Hong Kong Toprich Investment Limited from the number of total issued Shares as at each month or period end.

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As shown in the table above, the average daily trading volume of the Shares in each month ranged from 329,048 Shares in June 2020 to 54,517,578 Shares in August 2020, representing approximately 0.01% and 0.91% of the total number of issued Shares as at the end of the relevant months and approximately 0.02% to 3.36% of the total number of issued Shares held by public Shareholders as at the end of the relevant months, respectively, indicating a relatively thin trading liquidity in general since 2020 and up to the New Latest Practicable Date.

We consider the relatively high trading volumes of the Shares in August 2020 and December 2020 were probably driven by (1) the disposal of an aggregate of 1,050,000 Shares by the controlling Shareholders to an independent third party on 6 August 2020; (2) the disposal of an aggregate of 142,592,570 Shares by the Subscriber to four independent third parties on 30 November 2020 and 2 December 2020; and (3) the entering into of a non-legally binding memorandum of understanding with the People's Government of Dunhua Municipality in relation to a possible cooperation in the development of a cultural-tourism project in Dunhua city, Jilin Province, on 16 December 2020.

Given the relatively thin trading liquidity of the Shares in general as illustrated above, coupled with the loss-making and net liabilities position of the Group, the Directors consider that conducting fund raising exercises such as a share placement or a rights issue or open offer may not be feasible given (1) it is difficult to find independent third parties who are willing to act as placing agents or underwriters without any favorable terms; and (2) considerable discount to the market prices of the Shares will be required to attract potential investors or existing Shareholders to participate in the fund raising exercise. As such, we consider the settlement of the Shareholder's Loan by way of issue of the Convertible Bonds, with the Conversion Price set at a slight premium over the prevailing market prices of the Shares, is more appropriate as compared to other alternative means of financing. The setting of the Conversion Price at a slight premium over the prevailing market prices of the Shares will provide an incentive for the Subscriber to exercise the conversion right attaching to the Convertible Bonds so that the financial position of the Group would be improved and the Company is not required to redeem the Convertible Bonds at maturity.

(c) Comparison with other issues and subscriptions of convertible bonds or notes

As set out in the section headed "2. Background to and reasons for the Subscription – (ii) Reasons for and benefits of the Subscription" above, the Subscription allows the Group to defer potential cash outflow in respect of the repayment of the Shareholder's Loan such that the Group may have reasonable time to improve its financial position. In other words, the Subscription serves to refinance the Group's existing indebtedness (i.e. the Shareholder's Loan) for a longer term.

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In evaluating the fairness and reasonableness of the terms of the Convertible Bonds, we have further reviewed the issues and subscriptions of convertible bonds or notes conducted by companies listed on the Stock Exchange (the “**CB Comparables**”) as announced during the period from 1 June 2021 to the New Latest Practicable Date (being approximately three months prior to the Last Trading Day) (the “**Comparable Period**”), from which the proceeds were primarily used for repayment or refinancing of existing debts and/or general working capital purpose. Such uses of proceeds are comparable to the purpose of the Subscription as the subscription amount payable by the Subscriber is used to refinance the Company’s existing debt and strengthen its working capital position. Given that the settlement of the Shareholder’s Loan by way of the Subscription will not exert immediate cash outflow on the Company and will reclassify the Shareholder’s Loan from current liabilities to non-current liabilities in view of the eighteen-month term of the Convertible Bonds with an option to extend for another eighteen months subject to the Bondholder’s written consent, the Subscription is expected to strengthen the Company’s working capital position. Based on the aforesaid criteria, we have identified an exhaustive list of 12 CB Comparables.

We consider that the CB Comparables represent fair and representative samples given (1) the Comparable Period adequately covers the prevailing market conditions and sentiments of the capital market in Hong Kong; (2) the CB Comparables represent recent structures of the convertible bond or note issues in Hong Kong; (3) the CB Comparables demonstrate the market practice during the period and allow the Independent Shareholders to have a general understanding of recent issues of convertible bonds or notes being conducted in the capital market of Hong Kong; (4) the proceeds raised from the CB Comparables were primarily used for repayment or refinancing of debts and/or general working capital purpose which were analogous to that from the Subscription; and (5) the sufficient number (i.e. size of 12) of the CB Comparables identified.

Independent Shareholders should note that the businesses, market capitalisation and prospects of the Company and the terms of the Convertible Bonds are not the same as, or even substantially vary from, those of the CB Comparables and their respective issuers. We consider the CB Comparables, whether issued to connected persons or independent third parties, are relevant to our analysis given they are reflecting recent market practice or normal commercial terms.

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Set out below are the details of the CB Comparables:

Date of initial announcement	Company name (stock code)	Principal activities	Market capitalisation as at the New Latest Practicable Date	Size of issuance and use of proceeds	The subscribers are connected persons	Latest published net asset value (net liabilities) attributable to the shareholders prior to the date of agreement	Maturity (approximate in years)	Renewable option for extension the maturity	Coupon rate per annum	Premium/ (discount) of the conversion price over (to) the closing price per share on prior to the date of agreement	Premium/ (discount) of the conversion price over (to) the average closing price for the last five trading day prior to up to and including the date of agreement	Adjustments to conversion price
			HK\$' million		(Yes/No)			(Yes/No)	(%)	(approximate %)	(approximate %)	(Yes/No)
7 June 2021	Wisdom Wealth Resources Investment Holding Group Limited (7.HK)	Distribution of electronic products	508.0	HK\$20,000,000 General working capital (100%)	No	HK\$3,669,386,000	2	No	2	671.65 (outlier)	709.92 (outlier)	Yes
15 June 2021	Xtep International Holdings Limited (1368.HK)	Design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories	28,197.0	HK\$90,000,000 Refinancing of debts, working capital and other general corporate purpose (100%)	No	RMB7,223,333,000	6	No	1.8	15.36	10.03	Yes
23 June 2021	Beijing Energy International Holding Co., Ltd. (686.HK)	Solar power plants business	6,055.5	US\$50,000,000 Refinancing of debts, and for offshore projects and general working capital (100%)	No	RMB5,317,000,000	3	No	3.8	20.00	20.00	Yes
28 June 2021	China VAST Industrial Urban Development Company Limited (6166.HK)	Provision of services in the planning, development and operation of large-scale industrial towns	3,665.7	US\$123,275,892 Repayment and refinancing of debts and for investment projects, dividends distribution and general working capital (100%)	No	RMB6,235,021,000	3	No	6	0.00	0.66	Yes
29 June 2021	CMBB Vision Holdings Limited (471.HK)	Media and transmission businesses	146.5	US\$65,000,000 Refinancing of debts (100%)	Yes	US\$106,103,000	7	No	0	22.81	20.69	Yes
16 July 2021	Asiary Media Group Limited (1993.HK)	Development and operations of out-of-home advertising media, including advertising in airports, metro lines, billboards and building solutions	537.5	HK\$75,000,000 General working capital (100%)	Yes	HK\$295,021,000	Perpetual	No	4	25.26	22.11	Yes
20 July 2021	Far East Horizon Limited (3360.HK)	Provision of financial services	30,598.5	US\$200,000,000 Repayment of debts and general working capital (100%)	No	RMB34,119,452,000	5	No	0	28.92	29.85	Yes
22 July 2021	Jiuyuan International Group Limited (2768.HK)	Property development of large-scale residential complex projects and integrated commercial complex projects	14,385.8	US\$100,000,000 Refinancing of debts (100%)	No	RMB13,618,230,000	3.5	No	0	6.06	9.86	Yes
30 July 2021	Century Sage Scientific Holdings Limited (1450.HK)	Provision of application solutions, system maintenance services, sales of self-developed products and new media services	1,874.6	HK\$47,000,000 Repayment of debts, general working capital and business development (100%)	No	RMB80,883,000	3	No	1	2.22	(3.36)	Yes

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Date of initial announcement	Company name (stock code)	Principal activities	Market capitalisation as at the New Latest Practicable Date	Size of issuance and use of proceeds	The subscribers are connected persons	Latest published net asset value/net liabilities attributable to the shareholders prior to the date of agreement	Maturity (approximate in years)	Renewable option for extension the maturity	Coupon rate per annum	Premium/ (discount) of the conversion price over (to) the average closing price for the last five trading day prior to up to and including the date of agreement	Premium/ (discount) of the conversion price over (to) the average closing price for the last five trading day prior to up to and including the date of agreement	Adjustments to conversion price
			HK\$' million		(Yes/No)			(Yes/No)	(%)	(approximate %)	(approximate %)	(Yes/No)
20 October 2021	Shimao Services Holdings Limited (873.HK)	Provision of (i) property management services; (ii) community value-added services; (iii) value-added services to non-property owners; and (iv) city services	25,781.3	HK\$3,110,000,000	No	RMB6,654,342,000	1	No	2.25	8.32	9.89	Yes
				Potential mergers and acquisitions, business expansion, general working capital and general corporate uses (100%)								
21 October 2021	Wai Chun Group Holdings Limited (1013.HK)	(i) General trading; (ii) sales and integration services by the production of software and provision of solutions and related services; and (iii) the provision of telecommunications infrastructure solution services	143.3	HK\$42,700,000	Yes	HK\$8(134,207,000)	3	No	2	(11.11)	(11.11)	Yes
				Refinancing (100%)								
22 October 2021	Wai Chun Bio-Technology Limited (660.HK)	Manufacturing and sales of modified starch and other co-related bio-chemical products and general trading of electronic parts and components and electrical appliances	90.8	HK\$21,000,000	Yes	HK\$41,402,000	3	No	2	0.00	(12.28)	Yes
				Refinancing (100%)								
										(Excluding outlier)		
							Maximum		6	28.92	29.85	
							Minimum		0	(11.11)	(12.28)	
							Average		2.07	10.71	8.76	
							Median		2	8.32	9.89	
7 September 2021	The Company		2,638.1	HK\$183,076,730	Yes	RMB(13,707,000)	1.5	Yes	2	2.63	1.04	Yes
				Refinancing of debts								

Source: the announcements of relevant companies published on the website of the Stock Exchange and the Bloomberg

As shown in the table above, the initial conversion prices of the CB Comparables ranged from a discount of approximately 11.11% to a premium of approximately 28.92% to/over the respective closing price per share on the last trading day on/prior to the date of the relevant agreement, with an average and median of a premium of approximately 10.71% and 8.32%, respectively. The premium of approximately 2.63%, as represented by the Conversion Price over the closing price of HK\$0.38 per Share on the Last Trading Day, is within the aforesaid range.

In addition, the initial conversion prices of the CB Comparables ranged from a discount of approximately 12.28% to a premium of approximately 29.85% to/over the average closing price per share for the last five trading days prior to or up and including the date of the relevant agreement, with an average and median of a premium of approximately 8.76% and 9.89%, respectively. The premium of approximately 1.04%, as represented by the Conversion Price over the average closing price of approximately HK\$0.3860 per Share for the five consecutive trading days up to and including the Last Trading Day, is within the aforesaid range.

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Although the slight premiums of the Conversion Price to the market prices on or before the Last Trading Day (the “**Premiums**”) compare unfavorably to the averages and medians of those of the CB Comparables, we consider the Conversion Price to be fair and reasonable after taking into account the following as a whole:

- (1) the Premiums are within the ranges of those of the CB Comparables, as illustrated above;
- (2) the Conversion Price was (i) equal to or above the closing prices of the Shares in 350 (or approximately 70.14%) out of a total of 499 trading days; and (ii) represents a premium of approximately 58.15% to the Average Closing Price of HK\$0.2466 per Share, during the Review Period, as set out in the section headed “4. Assessment of the principal terms of the Subscription – (i) Conversion Price – (a) Comparison with historical closing prices of the Shares” above;
- (3) the net liability position of the Group as at 31 March 2021 and the loss-making position of the Group for FY2020 and FY2021;
- (4) the coupon rate of the Convertible Bonds of 2% per annum is much lower than the Group’s current borrowing costs, in the range of 5.39% to 12% per annum as at 31 March 2021; and
- (5) the setting of the Conversion Price at a slight premium over the prevailing market prices of the Shares will provide an incentive for the Subscriber to exercise the conversion right under the Convertible Bonds so that the financial position of the Group would be improved and the Company is not required to redeem the Convertible Bonds at maturity.

(ii) Maturity and interest rate

The terms of the CB Comparables range from one year to perpetual with no renewable option to extend the maturity whereas the coupon rates of the CB Comparables range from nil to 6% per annum. The Company may, subject to the Bondholder’s written consent which shall not be unreasonably withheld, to extend the New Maturity Date for another eighteen months to the third anniversary of the date of issue of the Convertible Bonds. We consider the eighteen-month maturity and the renewable option to extend the maturity to be fair and reasonable given that the renewable option provides an opportunity for the Group to further relieve its liquidity pressure and have reasonable time to improve its business performance and financial position. The term and coupon rate of the Convertible Bonds are in line with the market practice. We consider the 2% coupon rate of the Convertible Bonds to be fair and reasonable given that it is lower than the fixed interest rates of the Group’s existing secured bank and other loans and entrusted loan, in the range of 5.39% to 12% per annum as at 31 March 2021.

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(iii) Adjustments to conversion price

Pursuant to the terms of the Convertible Bonds, the Conversion Price will from time to time be adjusted upon occurrence of, among other things, share consolidation or sub-division, capitalisation of profits or reserves, capital distribution, an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe for new Shares made to the Shareholders at a price less than 80% of the market price, an issue wholly for cash any convertible securities with total effective consideration per Share less than 80% of the market price or an issue of Shares wholly for cash at a price less than 80% of the market price.

In assessing the fairness and reasonableness of the adjustment terms of the Convertible Bonds as regards the Conversion Price, we have reviewed the relevant adjustment terms of the CB Comparables and noted that the initial conversion prices of the CB Comparables are subject to adjustments upon occurrence of similar adjustment events as the Convertible Bonds as mentioned above. Therefore, we consider that the relevant adjustment terms of the Convertible Bonds are usual and normal adjustment terms which are comparable to those of other convertible bonds or notes in the market.

(iv) Overall comment

We noted that (a) the principal activities and market capitalisation of the Company and the respective issuers of the CB Comparables; and (b) the terms of the Convertible Bonds and the CB Comparables, including the size of issuance, term to maturity, coupon rate and premium/discount of the conversion price over/to market prices, are not the same or may even substantially vary (the “**Variations**”).

In our view, the terms of a convertible bond issuance, after arm’s length negotiation between the issuer and the subscriber, are dependent on various factors including but not limited to (a) the amount of fund required for achieving the objectives of the subscription (the “**Objectives**”) which will determine the size of issuance; (b) the time horizon for achieving the Objectives which will determine the term to maturity; (c) the financial performance and position of the issuer which will determine the cost of capital of the issuer and therefore the required coupon rate and premium/discount of the conversion price over/to market prices; (d) the trading liquidity of the shares of the issuer – the lower the trading liquidity, the higher coupon rate and/or discount of the conversion price to market prices that the subscriber may request; and (e) the availability of other alternative means of financing – the lesser financing alternatives being available, the more favourable terms of the convertible bond that the subscriber may ask for (collectively, the “**Major Factors**”). As such, we consider that the terms of the Convertible Bonds should be determined and assessed based on the specific circumstances of the Company as mentioned above in addition to the terms of the CB Comparables.

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Notwithstanding the Variations, we consider the CB Comparables to be fair and representative samples given (a) the CB Comparables represent recent structures of convertible bonds or notes issued by companies listed on the Stock Exchange under the prevailing market conditions and sentiments of the capital market in Hong Kong; (b) the proceeds raised from the CB Comparables were primarily used for repayment or refinancing of existing debts and/or general working capital which were analogous to that from the Subscription; (c) the number of the CB Comparables identified; and (c) the Major Factors vary among the Company and the respective issuers of the CB Comparables and so do the terms of the Convertible Bonds and the CB Comparables.

Based on the analyses set out in the sub-sections above, we consider that the terms of the Subscription are generally in line with the market practice demonstrated by the CB Comparables, and therefore fair and reasonable.

5. Financial impact of the Subscription

(i) *Earnings and working capital*

On initial recognition, the Convertible Bonds shall be recognised as a compound financial instrument with a conversion option, which comprise an equity component and a liability component, on the consolidated financial statements of the Company. The carrying amount of the liability component is first determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the Convertible Bonds as a whole. The liability component of the Convertible Bonds is subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss. It is expected that the Subscription will not have a material impact on the earnings of the Group.

Given (a) the settlement of the Shareholder's Loan by way of the Subscription will not exert immediate cash outflow on the Group and will reclassify the Shareholder's Loan from current liabilities to non-current liabilities given the eighteen-month term of the Convertible Bonds with an option to extend for another eighteen months subject to the Bondholder's written consent; and (b) the capital base of the Company will be improved upon conversion of the Convertible Bonds, the Subscription is expected to improve the liquidity of the Group.

(ii) *Net asset value and gearing*

It is expected that the Subscription will not have an immediate material impact on the net asset value and the gearing of the Group. However, the net asset value and gearing of the Group are expected to improve upon conversion of the Convertible Bonds, given the reduction in the Group's overall indebtedness.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial performance and position of the Company would be following the Subscription.

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6. Potential dilution effect on the shareholding interests of the existing public Shareholders

As shown in the Letter from the Board in the First Circular under the section headed “Effect on the shareholding structure of the Company”, assuming there is no other change in the issued share capital and shareholding structure of the Company other than the conversion of the Convertible Bonds, the shareholding in the Company held by existing public Shareholders would be diluted from approximately 30.38% as at the New Latest Practicable Date to approximately 29.23% immediately after full conversion of the Convertible Bonds.

Taking into account (i) the deteriorating financial position of the Group; (ii) the Subscription will not result in an immediate cash outflow for the Group and will immediately improve the net current liability position of the Group; (iii) the financial position of the Group will be improved upon conversion of the Convertible Bonds; and (iv) the terms of the Subscription (including the grant of the Specific Mandate) are fair and reasonable, we consider that the potential dilution effect on the shareholding of existing public Shareholders in the Company is acceptable so far as they are concerned.

OPINION AND RECOMMENDATION

In arriving at our opinion and recommendation, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- Due to the absence of property projects newly completed and delivered and the decrease in the average occupancy rate in respect of the shopping mall units in Baishan City, the PRC, the Group recorded a decrease in revenue by approximately 62.9% and 36.8% for FY2020 and FY2021, respectively. The Group incurred significant loss attributable to the Shareholders from continuing operations of approximately RMB1,367.5 million and RMB515.2 million for FY2020 and FY2021, respectively, primarily caused by the gross loss arising from sales of certain car park units at a loss, write-downs of some of the Group’s property projects in Jilin City and remaining car park units, impairment loss on receivables and the increase in finance costs, amid the worsening operating environment followed by the COVID-19 pandemic. In addition, the Group recorded net cash flows used in operating activities of approximately RMB105.4 million and RMB201.6 million for FY2020 and FY2021, respectively. As at 31 March 2021, the Group had net current liabilities and net liabilities of approximately RMB133.2 million and RMB13.7 million, respectively, with a gearing ratio of approximately 96%, deteriorating from those as at 31 March 2019. The Subscription serves as one of the measures to improve the liquidity and financial position of the Group;

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- the Subscription represents an appropriate measure for the Company to improve its liquidity and financial position given:
 - the longer terms of the Convertible Bonds, with an option to extend for another eighteen months subject to the Bondholder's written consent, will provide certainty as to the working capital requirement of the Group and allow sufficient time for the Group to explore possible repayment or refinancing plans for the Group's existing indebtedness;
 - the Subscription will not result in an immediate cash outflow of the Group and allows the Group to reclassify the Shareholder's Loan from current liabilities to non-current liabilities, immediately improving the liquidity position of the Group;
 - the Convertible Bonds, if converted, will improve the capital base and gearing ratio of the Group;
 - the Convertible Bonds, which are unsecured, have a coupon rate of 2% per annum which is lower than the fixed interest rates of the Group's existing secured bank and other loans and entrusted loan, in the range of 5.39% to 12% per annum as at 31 March 2021; and
 - the Conversion Price is set at slight premiums to the prevailing market prices of the Shares whereas considerable discounts to the market prices of the Shares may be required for other alternative means of financing such as a share placement or a rights issue or open offer;
- the terms of the Subscription (including the grant of the Specific Mandate) are fair and reasonable as a whole after taking into account the following:
 - the Conversion Price is fair and reasonable:
 - the premiums as represented by the Conversion Price over (i) the closing price on the Last Trading Day; and (ii) the average closing price for the five consecutive trading days up to and including the Last Trading Day are within the ranges of those of the CB Comparables;
 - the Conversion Price was (i) equal to or above the closing prices of the Shares in 350 (or approximately 70.14%) out of a total of 499 trading days; and (ii) represents a premium of approximately 58.15% to the Average Closing Price of HK\$0.2466 per Share, during the Review Period;
 - the coupon rate of the Convertible Bonds of 2% per annum is much lower than the Group's current borrowing costs, in the range of 5.39% to 12% per annum as at 31 March 2021; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- the setting of the Conversion Price at slight premiums over the prevailing market prices of the Shares will provide an incentive for the Subscriber to exercise the conversion right under the Convertible Bonds so that the financial position of the Group would be improved and the Company is not required to redeem the Convertible Bonds at maturity; and
- other principal terms of the Subscription, including the term and coupon rate of the Convertible Bonds and the adjustment terms on the initial Conversion Price, are generally in line of the market practice as demonstrated by the CB Comparables;
- the Subscription is expected to improve the liquidity of the Group as well as the capital base and gearing ratio of the Group upon conversion of the Convertible Bonds; and
- the potential dilution effect on the shareholding of existing public Shareholders in the Company from approximately 30.38% as at the New Latest Practicable Date to approximately 29.23% immediately after full conversion of the Convertible Bonds is acceptable after taking into account the factors stated above.

Based on the above, we consider that the terms of the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Subscription (including the grant of the Specific Mandate), while not in the ordinary and usual course of business of the Company, are nevertheless in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Adjourned SGM to approve the Subscription Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder (including the grant of the Specific Mandate).

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years of experience in the corporate finance industry.

NOTICE OF ADJOURNED SGM

HUA YIN INTERNATIONAL HOLDINGS LIMITED

華音國際控股有限公司

(Incorporated in Bermuda with limited liability)

(stock code: 989)

NOTICE OF ADJOURNED SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an adjourned special general meeting (the “**Adjourned SGM**”) of Hua Yin International Holdings Limited (the “**Company**”) will be held at Room 901-905, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong at 11:00 a.m. on Friday, 26 November 2021, to consider and, if thought fit, pass the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT:**

- (a) the subscription agreement dated 7 September 2021 (the “**Subscription Agreement**”) (a copy of which has been produced to the Adjourned SGM and marked “A” and initialled by the chairman of the SGM for the purpose of identification) (as amended by the supplemental letter (the “**First Supplemental Letter**”) dated 28 September 2021 and the supplemental agreement dated 22 October 2021 (the “**Supplemental Agreement**”) supplemental to the Subscription Agreement) and entered into between the Company as issuer and Ka Yik Investments Limited as subscriber (the “**Subscriber**”) in relation to the issue of the convertible bonds in an aggregate principal amount of HK\$103,076,000 (the “**Convertible Bonds**”), which entitle the holder(s) thereof to convert the same into shares (the “**Conversion Shares**”) in the share capital of the Company in accordance with the terms of the Convertible Bonds at the initial conversion price of HK\$0.39 (subject to adjustments) per Conversion Share and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds) be and are hereby approved, confirmed and ratified;
- (b) the board of directors (the “**Directors**”) of the Company be and are hereby granted a specific mandate to allot and issue the Conversion Shares to the relevant holder(s) of the Convertible Bonds upon exercise of the conversion rights attached to the Convertible Bonds in accordance with the terms of the Convertible Bonds. The aforementioned specific mandate is in addition to, and shall not prejudice nor revoke any general or special mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and

NOTICE OF ADJOURNED SGM

- (c) any one or more of the Directors be and is/are hereby authorised to do such acts and things, to sign and execute all such further documents (and to affix the common seal of the Company thereon, if necessary) and to take such steps as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Subscription Agreement or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

By Order of the Board
Hua Yin International Holdings Limited
Ng Man Kit Micky
Company Secretary

Hong Kong, 11 November 2021

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal of business in Hong Kong:

Room 1305, 13th Floor
China Resources Building
No. 26 Harbour Road
Wanchai, Hong Kong

Notes:

1. Any Shareholder entitled to attend and vote at the Adjourned SGM is entitled to appoint a proxy to attend and vote instead of him/her/it at the Adjourned SGM. A proxy need not be a Shareholder. A Shareholder who is the holder of two or more Shares may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf.
2. The form of proxy despatched with the circular of the Company dated 30 September 2021 will remain valid for the Adjourned SGM if you do not intend to change your vote. However, should you intend to lodge a revised form of proxy, the accompanying form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be deposited with the Company's principal share registrar or branch share registrar as follows:
 - (i) in case of those members registered on the principal register: at the office of the Company's principal share registrar, MUFG Fund Services (Bermuda) Limited, c/o Suntera Corporate Services Limited at 18/F, On Building, 162 Queen's Road Central, Central, Hong Kong; and
 - (ii) in case of those members registered on the Hong Kong branch register: at the office of the Company's Hong Kong branch share registrar, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong,

as soon as possible but in any event and in both cases, not less than 48 hours before the time appointed for holding the Adjourned SGM. Shareholders of the Company should note that the forms of proxy lodged by the Shareholders prior to the date hereof, if completed correctly, shall continue to be valid but will be superseded and become invalid in the event that the same Shareholder has lodged an additional form of proxy with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited.

NOTICE OF ADJOURNED SGM

3. Any Shareholders whose names are on the register of members of the Company on 18 October 2021 are entitled to attend and vote at the Adjourned SGM, regardless of whether he/she/it attended the original SGM held at 11:15 a.m. on 19 October 2021, and regardless of whether he/she/it appointed a proxy, a corporate representative or an attorney to attend in his/her/its stead.
4. In the case of joint holders of any share of the Company, any one of such joint holders may vote at the above meeting, either in person or by proxy, in respect of such share of the Company as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the above meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
5. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Adjourned SGM or at any adjournment thereof should you so wish and in such event, the form of proxy will be deemed to be revoked.
6. Pursuant to the Listing Rules, all the resolutions proposed at the Adjourned SGM will be decided by way of a poll.
7. In view of the COVID-19 pandemic, the Company will implement precautionary measures at the meeting. Shareholders are advised to read page ii of the circular of the Company dated 11 November 2021 for details of the precautionary measures. Subject to the development of COVID-19 pandemic, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate. In light of the continuing risks posed by the COVID-19 pandemic, shareholders may consider to appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) as an alternative to attending the meeting in person.
8. A circular dated 11 November 2021 containing further information concerning resolution 1 above is available either in printed form or on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.huayininternational.com.
9. As at the date of this notice, the executive directors are Ms. Cui Xintong, Mr. Li Junjie, Mr. Cong Peifeng and Mr. Xu Yingchuan and the independent non-executive directors are Mr. Tsang Hung Kei, Mr. Zhu Zuoan and Mr. Wang Xiaochu.