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

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

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SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

CONNECTED TRANSACTION PROPOSED EXTENSION OF THE MATURITY DATE OF HK\$50,000,000 CONVERTIBLE BONDS DUE 2023 AND NOTICE OF THE EGM

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



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

A letter from the Board is set out on pages 5 to 21 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 22 and 23 of this circular. A letter from the Independent Financial Adviser containing its recommendation and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 41 of this circular.

A notice convening the EGM to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 21 June 2022 at 1:00 p.m. or any adjournment thereof is set out on pages EGM-1 and EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit it with Union Registrars Limited, the share registrar of the Company, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

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

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

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

2 June 2022

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DEFINITIONS

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

“Amendment Deed”	the supplemental deed of Instrument to be executed by the Company on the Effective Date for the Proposed Extension
“Approved Professional Adviser”	an independent firm of merchant bank or audit firm of international repute in the opinion of the Company appointed in accordance with the provisions of the instrument constituting the Convertible Bonds
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Bondholder”	Total Grace Investments Limited, a company incorporated in the BVI, which is wholly and beneficially owned by Mr. Ng, being the subscriber under the Subscription Agreement
“Business Day”	a day (other than a Saturday, Sunday or public holiday and days on which a typical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong) on which licensed banks in Hong Kong are generally open for ordinary banking business throughout their normal business hours
“BVI”	the British Virgin Islands
“Company”	South China Financial Holdings Limited, a company incorporated in Hong Kong whose Shares are listed on the Main Board of the Stock Exchange
“Conditions”	terms and conditions of the Convertible Bonds as set out in the Instrument
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Conversion Share(s)”	new Share(s) to be allotted and issued by the Company upon the exercise of the conversion rights attached to the Convertible Bonds by the Bondholder pursuant to the terms and conditions of the instrument constituting the Convertible Bonds
“Convertible Bonds”	the outstanding HK\$50,000,000 convertible bonds issued by the Company to the Bondholder on 30 June 2020
“Director(s)”	director(s) of the Company

DEFINITIONS

“Effective Date”	a date determined in accordance with the Supplemental Agreement, subject to fulfilment of all conditions precedent set out therein
“EGM”	an extraordinary general meeting of the Company to be convened and held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 21 June 2022 at 1:00 p.m. to consider and, if thought fit, approve the Supplemental Agreement and the transactions as contemplated thereunder
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegate(s)
“Fung Shing”	Fung Shing Group Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Ng as at the Latest Practicable Date
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board established by the Board, comprising all the independent non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Supplemental Agreement and as to voting at the EGM
“Independent Financial Adviser”	First Shanghai Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the Supplemental Agreement and the Proposed Extension as contemplated thereunder
“Independent Shareholders”	Shareholders, other than the Bondholder and its associates who are required to abstain from voting at the EGM pursuant to the Listing Rules
“Instrument”	the instrument constituting the Convertible Bonds, as amended and supplemented from time to time

DEFINITIONS

“Issue Date”	the date of first issue of the Convertible Bonds, i.e. 30 June 2020
“Latest Practicable Date”	30 May 2022, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling on the third (3rd) anniversary of the Issue Date, i.e. 30 June 2023
“Mr. Ng”	Mr. Ng Hung Sang, an executive Director and a substantial Shareholder
“Mr. Paul Ng”	Mr. Ng Yuk Yeung Paul, son of Mr. Ng
“Ms. Jessica Ng”	Ms. Ng Yuk Mui Jessica, daughter of Mr. Ng
“Parkfield”	Parkfield Holdings Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Ng as at the Latest Practicable Date
“parties acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“PRC”	the People’s Republic of China which, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of PRC and Taiwan
“Previous Announcements”	the announcements of the Company dated 7 April, 17 April and 30 June 2020 in relation to the issue of the Convertible Bonds by the Company to the Bondholder under specific mandate
“Previous Circular”	the circular dated 15 May 2020 in relation to the issue of the Convertible Bonds by the Company to the Bondholder under specific mandate
“Proposed Extension”	the proposed amendment to the Conditions as contemplated under the Supplemental Agreement and to be effected by way of execution of the Amendment Deed, i.e. the extension of the Maturity Date from 30 June 2023 to 30 June 2026

DEFINITIONS

“Public Float Requirement”	the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Shares which are listed on the Stock Exchange shall be held by the public for the purpose of the Listing Rules
“Ronastar”	Ronastar Investments Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Ng as at the Latest Practicable Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Convertible Bonds pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 7 April 2020 and entered into between the Company and the Bondholder in relation to the Subscription
“substantial Shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Supplemental Agreement”	the supplemental agreement dated 16 May 2022 entered into between the Company and the Bondholder to effect the Proposed Extension by way of execution of the Amendment Deed by the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Uni-Spark”	Uni-Spark Investments Limited, a company incorporated in Hong Kong with limited liability and wholly and beneficially owned by Mr. Ng as at the Latest Practicable Date
“%”	per cent.

LETTER FROM THE BOARD



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

Executive Directors:

Mr. Ng Hung Sang (*Chairman*)

Ms. Cheung Choi Ngor (*Vice Chairman*)

Ms. Ng Yuk Mui Jessica

(Executive Vice Chairman and Chief Executive Officer)

Registered office:

28th Floor, Bank of China Tower

1 Garden Road, Central

Hong Kong

Independent non-executive Directors:

Hon. Raymond Arthur William Sears, Q.C.

Mrs. Tse Wong Siu Yin Elizabeth

Mr. Tung Woon Cheung Eric

2 June 2022

To the Shareholders

Dear Sirs,

**CONNECTED TRANSACTION
PROPOSED EXTENSION OF THE MATURITY DATE OF
HK\$50,000,000 CONVERTIBLE BONDS DUE 2023
AND
NOTICE OF THE EGM**

INTRODUCTION

Reference is made to (i) the Previous Announcements and the Previous Circular; and (ii) the announcement of the Company dated 16 May 2022 in relation to the Proposed Extension.

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

LETTER FROM THE BOARD

PROPOSED ALTERATION OF THE TERMS OF THE CONVERTIBLE BONDS

Background

Reference is made to the Previous Announcements and the Previous Circular in relation to, among other things, the issuance by the Company of the Convertible Bonds to the Bondholder.

As at the Latest Practicable Date, the Convertible Bonds remain outstanding in full and will mature on 30 June 2023, being the Maturity Date.

Supplemental Agreement and Proposed Extension

On 16 May 2022 (after trading hours), the Company and the Bondholder entered into the Supplemental Agreement, pursuant to which the Company and the Bondholder conditionally agreed to extend the Maturity Date by three (3) years from 30 June 2023 to 30 June 2026 by way of execution of the Amendment Deed.

Save for the Proposed Extension, all other terms and conditions of the Convertible Bonds shall remain unchanged.

The Proposed Extension is subject to the fulfilment (or waiver, other than conditions (a), (b) and (c) below) of the following conditions:

- (a) the Stock Exchange granting the approval in relation to the Proposed Extension as contemplated under the Supplemental Agreement in accordance with the Listing Rules;
- (b) the passing by the Independent Shareholders of all necessary resolution(s) at the EGM to approve the Proposed Extension as contemplated under the Supplemental Agreement;
- (c) all necessary consents and approvals in respect of the Proposed Extension as contemplated under the Supplemental Agreement (including but not limited to the necessary approvals to be obtained under the Listing Rules) having been obtained; and
- (d) the Company and the Bondholder shall have passed all the necessary resolution(s) of the board of directors or obtained necessary internal approval approving, among other things, the terms of and the transactions as contemplated under the Supplemental Agreement.

Save as condition (d), none of the above conditions precedent shall be waived by the parties to the Supplemental Agreement. The Amendment Deed shall not be executed by the Company and have no effect unless and until all the conditions precedent set out above are fulfilled or waived (as the case may be). As at the Latest Practicable Date, condition (d) has been fulfilled.

LETTER FROM THE BOARD

Principal terms of the Convertible Bonds after the Proposed Extension

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

Issuer:	The Company
Principal amount:	HK\$50,000,000
Issue price:	100% of the principal amount of the Convertible Bonds
Interest rate:	Nil
Maturity Date:	The date falling on the sixth (6th) anniversary of the Issue Date, or, if that is not a Business Day, the first Business Day thereafter.
Status:	The Convertible Bonds constitute direct, unsecured, unsubordinated and unconditional obligations of the Company and rank <i>pari passu</i> and without any preference or priority among themselves. The payment obligations of the Company under the Convertible Bonds shall, subject to such exceptions as may be provided by applicable laws, rank at least <i>pari passu</i> with all its other present and future direct, unsecured, unsubordinated and unconditional obligations.
Conversion right:	Subject as provided in the terms of the Convertible Bonds, the Convertible Bonds are convertible in whole or in part into new Shares any time during the period commencing from the Issue Date, at the Conversion Price, subject to adjustment in accordance with the terms of the Convertible Bonds. Any conversion shall be made in amounts of not less than a whole multiple of HK\$10,000,000 and no fraction of a Share shall be issued on conversion.

LETTER FROM THE BOARD

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

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

LETTER FROM THE BOARD

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

- Conversion period: The holder(s) of the Convertible Bonds shall have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares for the period commencing from the Issue Date up to 4:00 p.m. on the Maturity Date (Hong Kong time).
- Cash settlement option clause: In the event that the issue of Shares upon exercise of the conversion rights under the Convertible Bonds would result in breach of the Company's obligations of the Public Float Requirement under the Listing Rules, the Company will be allowed, to pay to the relevant Bondholder an amount of cash in HK dollars equal to the cash settlement amount (the "**Cash Settlement Amount**") in order to satisfy such conversion right, in full or in part as determined at the sole discretion of the Company (and if settled in part by cash, the balance shall be satisfied by the delivery of Shares) (the "**Cash Settlement Option**") such that the Public Float Requirement would be met upon exercise of the conversion rights under the Convertible Bonds. The Cash Settlement Amount consists of the product of (i) the number of Shares otherwise deliverable upon exercise of the conversion right in respect of the Convertible Bond(s) to which the conversion notice applies, and in respect of which the Company has elected the Cash Settlement Option; and (ii) the average of the closing price of the Shares for each day during the five (5) consecutive trading days immediately after the date of the notice given by the Company to the relevant Bondholder(s) informing its intention to exercise the Cash Settlement Option.

LETTER FROM THE BOARD

Conversion Price: The Conversion Price is initially HK\$0.22 per Conversion Share, subject to adjustment provisions as summarised below.

Adjustments events: The initial Conversion Price will be subject to adjustment arising from any of the following events which would result in alteration in the capital structure of the Company becoming effective prior to the Conversion Date:

- (i) *capitalisation of profits or reserves* — if and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account) including Shares paid up out of distributable profits or reserves and/or share premium account issued;
- (ii) *rights issue or other offer of securities to holders of Shares (including any securities convertible into Shares or warrants or options to subscribe for any Shares)* — if and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, of options, warrants or other rights to subscribe for or purchase any Shares; or
- (iii) *consolidation or sub-division of the Shares or reduction of the share capital of the Company or otherwise howsoever* — if and whenever there shall be an alteration of the share capital of the Company as a result of consolidation, subdivision or reclassification,

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

LETTER FROM THE BOARD

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

Further provisions in relation to adjustment to Conversion Price:

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

Conversion Shares to be issued under the Convertible Bonds:

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

LETTER FROM THE BOARD

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

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

The theoretical dilution effect of the issue of the Conversion Shares at the Conversion Price calculated based on the benchmark price of approximately HK\$0.238 (being the average closing price in the five (5) trading days immediately before the date of the Supplemental Agreement) is approximately 3% and thus the issue of the Conversion Shares at the Conversion Price will not result in a theoretical dilution effect of 25% or more on its own as referred to under Rule 7.27B of the Listing Rules. The Company will continue to comply with Rule 7.27B of the Listing Rules after the Proposed Extension.

Redemption upon
maturity:

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

Redemption by the
Company:

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

LETTER FROM THE BOARD

Redemption by the Bondholder(s):	Bondholder(s) will have the unconditional right at any time during the period commencing from the Issue Date and expiring on the Maturity Date to require the Company to redeem the whole or part of the outstanding Convertible Bonds by giving the Company not less than thirty (30) days' (or such other period to be mutually agreed between the Bondholder and the Company in writing) prior written notice at the redemption amount which is 100% of the principal amount of the outstanding Convertible Bonds to be redeemed.
Redemption upon events of default:	Upon the occurrence of an event of default as described below and at any time thereafter, the Bondholder(s) may, unless such event of default has been waived in writing by it, by notice in writing, require the Company to redeem the whole (but not part) of the outstanding principal amount of the Convertible Bonds at the redemption amount provided in the instrument constituting the Convertible Bonds whereupon such sum shall become due and payable in the manner provided in the instrument constituting the Convertible Bonds on the tenth (10th) Business Day after the date of such notice.
Voting rights:	The Convertible Bonds shall not confer on the Bondholder(s) the right to vote at any general meetings of the Company.
Listing:	No application has been or will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.
Transferability:	<p>Subject to the satisfaction of warranties stipulated in the instrument constituting the Convertible Bonds (or, if capable of being remedied, has been remedied) and subject to the Company's prior written consent, the Convertible Bonds may be transferred to any person in whole multiples of HK\$10,000,000 (or such lesser amount as may represent the entire principal amount thereof). A transfer shall be effected by delivery of a certificate issued in the name of the Bondholder issued in respect of that Convertible Bond, with an instrument of transfer duly completed and signed by both the transferor and the transferee. No transfer of title to any Convertible Bond will be effective unless and until entered on the register of Bondholders.</p> <p>Subject to the Listing Rules, the Convertible Bonds may not be transferred to connected persons of the Company.</p>

LETTER FROM THE BOARD

Events of default:

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

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

LETTER FROM THE BOARD

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

Undertakings by the
Company:

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

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

LETTER FROM THE BOARD

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

Reasons for and benefits of the Proposed Extension

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

The Board has considered other financing alternatives to raise funds to settle the Convertible Bonds including bank borrowings and equity financing. In respect of the bank borrowings, the Board is of the view that interest will be incurred in all bank borrowings inevitably, which will be an additional cost burden to the Group. In addition, the Board is of the view that under the prevailing market conditions, there may be huge uncertainty in the outcome of fund raising through equity financing (including placing of new Shares, rights issue and open offer) and equity financing may result in higher dilution on the shareholding of the existing Shareholders as deeper discount may be required to attract the potential investors. Given the foregoing, the Board considers that other financing alternatives are not the most effective means to refinance the Convertible Bonds.

The Proposed Extension will allow the Group to enjoy more flexibility in planning its financial resources as the extended Maturity Date will enable the Group to prioritize the use of its financial resources to fund its operations, business development and potential investments in the long run which have been materially affected by the COVID-19 instead of repayment of the Convertible Bonds upon its maturity, which in turn aims at maximizing the returns to the Shareholders. As such, the Directors (not including Mr. Ng (who have material interest in the Proposed Extension) and Ms. Jessica Ng who is an associate of Mr. Ng) preliminarily consider that the terms and conditions of the Supplemental Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Having taken into account that (i) other financing alternatives are not the most effective means to refinance the Convertible Bonds; (ii) the Convertible Bonds is zero coupon and will not incur any interest burden for the Group up to the extended Maturity Date; and (iii) all terms and conditions of the Convertible Bonds remain unchanged save for the Maturity Date thus it will effectively allow the Group to enjoy more flexibility in planning its financial resources and have additional time to develop its businesses in order to maximise returns to the Shareholders, the Board considers that Proposed Extension is in the best interests of the Company and the Shareholders as a whole.

Information on the Bondholder

The Bondholder is an investment holding company. The Bondholder is wholly and beneficially owned by Mr. Ng, who is an executive Director and a substantial Shareholder, as at the Latest Practicable Date.

Effect on the shareholding structure of the Company

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

	As at the Latest Practicable Date		Upon conversion of the Convertible Bonds not resulting the Bondholder and the parties acting concert with it exceeding the 2% creeper rule under Rule 26.1 of the Takeovers Code		Upon full conversion of the Convertible Bonds (Note 1)	
	Approximate		Approximate		Approximate	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
	(Note 2)		(Note 2)		(Note 2)	
Bondholder and parties acting in concert						
Mr. Ng (Notes 3 and 4)	11,609,264	3.85	11,609,264	3.73	11,609,264	2.20
Uni-Spark (Note 3)	7,178,761	2.38	7,178,761	2.30	7,178,761	1.36
Fung Shing (Note 3)	23,526,030	7.81	23,526,030	7.55	23,526,030	4.45
Parkfield (Note 3)	44,623,680	14.81	44,623,680	14.32	44,623,680	8.44
Ronastar (Note 3)	1,999,872	0.67	1,999,872	0.64	1,999,872	0.38
The Bondholder (Note 3)	—	—	10,266,952	3.30	227,272,727	43.00
Mr. Paul Ng (Note 5)	12,198,000	4.05	12,198,000	3.92	12,198,000	2.31
Ms. Cheung Choi Ngor (Notes 4 and 6)	12,300,311	4.08	12,300,311	3.95	12,300,311	2.33
Mr. Richard Howard Gorges (Note 6)	5,000,000	1.66	5,000,000	1.60	5,000,000	0.94
Sub-total	118,435,918	39.31	128,702,870	41.31	345,708,645	65.41

LETTER FROM THE BOARD

	Upon conversion of the Convertible Bonds not resulting the Bondholder and the parties acting concert with it exceeding the 2% creeper rule under Rule 26.1 of the Takeovers Code				Upon full conversion of the Convertible Bonds (Note 1)	
As at the Latest Practicable Date	Approximate		Approximate		Approximate	
No. of Shares	%	No. of Shares	%	No. of Shares	%	
(Note 2)		(Note 2)		(Note 2)		
Director						
Hon. Raymond Arthur William Sears, Q.C. (Note 4)	53,000	0.02	53,000	0.02	53,000	0.01
Other public Shareholders	<u>182,788,152</u>	<u>60.67</u>	<u>182,788,152</u>	<u>58.67</u>	<u>182,788,152</u>	<u>34.58</u>
Total:	<u>301,277,070</u>	<u>100.00</u>	<u>311,544,022</u>	<u>100.00</u>	<u>528,549,797</u>	<u>100.00</u>

Notes:

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

Fund raising activities in the past 12-month period

The Company had not conducted any other fund raising activities in the past 12 months immediately preceding the Latest Practicable Date.

Implications under the Listing Rules

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. The Company will apply to the Stock Exchange for approval of the Proposed Extension pursuant to Rule 28.05 of the Listing Rules.

LETTER FROM THE BOARD

The Bondholder is wholly and beneficially owned by Mr. Ng, who is an executive Director and a substantial Shareholder and is directly and indirectly beneficially holding 88,937,607 Shares (representing approximately 29.52% of the total number of issued Shares) as at the Latest Practicable Date. Accordingly, the Bondholder is a connected person of the Company under Chapter 14A of the Listing Rules.

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

Therefore, the Proposed Extension to be effected by the Supplemental Agreement entered into between the Company and the Bondholder constitutes a connected transaction of the Company, which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the EGM. The Bondholder and its associates, namely Mr. Ng, Uni-Spark, Ronastar, Parkfield, Fung Shing and Mr. Paul Ng, holding approximately 33.57% of the total number of issued Shares in aggregate as at the Latest Practicable Date, shall abstain from voting at the EGM to be convened to consider and, if thought fit, to approve the Proposed Extension as contemplated under the Supplemental Agreement at the EGM.

Independent Board Committee and Independent Financial Adviser

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

First Shanghai Capital Limited has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Extension as contemplated under the Supplemental Agreement.

EGM

The EGM will be held at to consider and, if thought fit, pass the resolutions to approve, among other things, the Supplemental Agreement and the transactions as contemplated thereunder. The resolutions in relation to the Supplemental Agreement and the transactions as contemplated thereunder at the EGM will be voted on by the Independent Shareholders by way of poll.

The Bondholder and its associates, namely Mr. Ng, Uni-Spark, Ronastar, Parkfield, Fung Shing and Mr. Paul Ng, holding approximately 33.57% of the total number of issued Shares in aggregate as at the Latest Practicable Date, shall abstain from voting at the EGM to be convened to consider and, if thought fit, to approve the Supplemental Agreement and the transactions as contemplated thereunder.

LETTER FROM THE BOARD

The notice convening the EGM to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 21 June 2022 at 1:00 p.m. is set out on pages EGM-1 and EGM-2 of this circular.

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

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the list of shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 15 June 2022 to Tuesday, 21 June 2022 (both dates inclusive). No transfer of shares of the Company will be registered during these days. In order to qualify to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with Union Registrars Limited, the share registrar of the Company, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 14 June 2022.

RECOMMENDATION

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

LETTER FROM THE BOARD

The Board including the Independent Board Committee after having considered the advice of the Independent Financial Adviser considers that the Supplemental Agreement and the transactions as contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and recommends that the Independent Shareholders vote in favour of the resolutions relating to the Supplemental Agreement and the transactions as contemplated thereunder at the EGM.

FURTHER INFORMATION

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

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

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

Yours faithfully
For and on behalf of the Board
South China Financial Holdings Limited
南華金融控股有限公司
Ng Yuk Mui Jessica
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION PROPOSED EXTENSION OF THE MATURITY DATE OF HK\$50,000,000 CONVERTIBLE BONDS DUE 2023

We refer to the circular issued by the Company dated 2 June 2022 (the “**Circular**”) to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

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

First Shanghai Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Supplemental Agreement and the Proposed Extension as contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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

After taking the advice of the Independent Financial Adviser as set out in the “Letter from the Independent Financial Adviser” in the Circular, we consider that the terms of the Supplemental Agreement and the Proposed Extension as contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, therefore, recommend that you vote in favour of the resolution relating to the Supplemental Agreement and the Proposed Extension as contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Independent Board Committee

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter received from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Extension contemplated under the Supplemental Agreement for inclusion in this circular.



2 June 2022

*To the Independent Board Committee and
the Independent Shareholders*

South China Financial Holdings Limited
28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Dear Sir or Madam,

CONNECTED TRANSACTION PROPOSED EXTENSION OF THE MATURITY DATE OF HK\$50,000,000 CONVERTIBLE BONDS DUE 2023

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Extension contemplated under the Supplemental Agreement, details of which are set out in the circular of the Company to the Shareholders dated 2 June 2022 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 16 May 2022, the Company and the Bondholder entered into the Supplemental Agreement to extend the Maturity Date of the Convertible Bonds (i.e. the Proposed Extension) from 30 June 2023 to 30 June 2026 by way of execution of the Amendment Deed. Save for the Proposed Extension, all terms of the Convertible Bonds remain unchanged and in full force. The issuance of the Convertible Bonds, which is interest-free with a principal amount of HK\$50 million, was approved by the then independent shareholders of the Company at the extraordinary general meeting held on 2 June 2020 and was completed on 30 June 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Bondholder is wholly and beneficially owned by Mr. Ng, who is an executive Director and a substantial Shareholder, as at the Latest Practicable Date. Accordingly, the Bondholder is a connected person of the Company under the Listing Rules. Therefore, the Proposed Extension to be effected by the Supplemental Agreement entered into between the Company and the Bondholder constitutes a connected transaction of the Company, which is subject to, among other requirements, the approval from the Independent Shareholders under Chapter 14A of the Listing Rules by way of poll at the EGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Hon. Raymond Arthur William Sears, Q.C., Mrs. Tse Wong Siu Yin Elizabeth and Mr. Tung Woon Cheung Eric, has been established to advise the Independent Shareholders in relation to the Proposed Extension contemplated under the Supplemental Agreement. We, First Shanghai Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

The Independent Shareholders should note that, within the past two years prior to the Latest Practicable Date, we were engaged as independent financial adviser by South China Assets Holdings Limited (stock code: previously 8155 HK) (its listing was cancelled by GEM of the Stock Exchange on 7 March 2022) (“**South China Assets**”), where Mr. Ng was a director and a controlling shareholder of South China Assets, for three occasions, regarding (i) a discloseable and connected transaction related to the acquisition of a company as disclosed in the circular of South China Assets dated 26 June 2020; (ii) a continuing connected transaction related to management services as disclosed in the circular of South China Assets dated 16 November 2020; and (iii) certain continuing connected transactions related to management services as disclosed in the circular of South China Assets dated 3 February 2021 (collectively, the “**Previous Engagements**”). Apart from normal professional fees paid or payable to us in connection with the Previous Engagements, we did not have any other relationships or interests with the Company within the past two years from the Latest Practicable Date.

Given (i) our independent role in the Previous Engagements; (ii) none of the members of our parent group is a direct party to the Supplemental Agreement; and (iii) our fee for the current engagement with the Company, in addition to that for the Previous Engagements, represented an insignificant percentage of revenue of our parent group, we consider that the Previous Engagements would not affect our independence, and we consider ourselves independent, to provide our advice and form our opinion in respect of the Proposed Extension contemplated under the Supplemental Agreement.

BASIS OF OUR OPINION

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group (the “**Management**”), and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Management were true at the time they were made and continued to be true up to the Latest Practicable Date. We have reviewed, among other documents, the Supplemental Agreement, the Amendment Deed,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the financial statements of the Group and relevant industry information as further elaborated in our letter. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Management nor have we conducted any form of investigation into the business, affairs or future prospects of the Group. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with note 1 to Rule 13.80 of the Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Proposed Extension contemplated under the Supplemental Agreement, we have taken into account the following principal factors and reasons:

1. Background information on the parties to the Supplemental Agreement

The Company is an investment holding company. The principal activities and business of the Group consist of securities, commodities and bullion broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services, asset and wealth management, property investment, media publications and financial public relation services, sale of jewellery products and investment holding. According to the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”), (i) approximately 41% of the total revenue of the Group was derived from the financial business sector (including broking, trading and investment, margin financing and money lending, corporate advisory and underwriting and asset and wealth management) (the “**Financial Business**”); and (ii) approximately 28%, 22% and 9% of the total revenue of the Group was derived from the jewellery business segment, the media publications and financial public relation services segment and the property investment segment, respectively for the year ended 31 December 2021. We also note from the 2021 Annual Report that approximately 70% of the revenue of the Group was derived from Hong Kong, while the remaining was derived from Mainland China.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.1. Historical financial performance of the Group

The following table summarises the consolidated statement of profit or loss of the Group for each of the years ended 31 December 2019, 2020 and 2021 with reference to the published annual reports of the Company:

	For the year ended 31 December		
	2019	2020	2021
	HK\$ million (Audited)	HK\$ million (Audited)	HK\$ million (Audited)
Revenue	204	89	107
Loss from operating activities	(54)	(242)	(70)
Loss for the year attributable to equity holders of the Company from continuing operations	(78)	(268)	(77)

(a) Year ended 31 December 2020 compared with year ended 31 December 2019

With reference to the annual report of the Company for the year ended 31 December 2020, year 2020 was an extremely difficult year with the worldwide economy grossly hampered by the COVID-19 pandemic. Total revenue of the Group declined from approximately HK\$204 million for the year ended 31 December 2019 to approximately HK\$89 million for the year ended 31 December 2020, representing a decrease of approximately 56%, which was mainly attributable to the decrease in the revenue generated from the Financial Business by approximately HK\$82 million, primarily due to the deterioration of revenue from the trading and investment segment by approximately HK\$53 million. Accordingly, loss for the year attributable to equity holders of the Company from continuing operations also increased from approximately HK\$78 million for the year ended 31 December 2019 to approximately HK\$268 million for the year ended 31 December 2020.

(b) Year ended 31 December 2021 compared with year ended 31 December 2020

Total revenue of the Group increased from approximately HK\$89 million for the year ended 31 December 2020 to approximately HK\$107 million for the year ended 31 December 2021, representing an increase of approximately 20%, which was mainly attributable to the increase in the revenue generated from the Financial Business by approximately HK\$14 million, primarily due to the turnaround improvement of revenue from the trading and investment segment. Loss from operating activities narrowed from approximately HK\$242 million for the year ended 31 December 2020 to approximately HK\$70 million for the year ended 31 December 2021, which was mainly due to (i) the reduction of fair value losses on investment properties, financial assets and convertible bonds by an aggregate amount of approximately HK\$58 million; (ii) the absence of impairment of goodwill for the year ended 31 December 2021, which amounted to approximately HK\$39 million for the year ended 31 December 2020; and (iii) the reduction in the cost of media

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

publications and financial public relation services by approximately HK\$28 million. Accordingly, loss for the year attributable to equity holders of the Company from continuing operations also narrowed from approximately HK\$268 million for the year ended 31 December 2020 to approximately HK\$77 million for the year ended 31 December 2021.

1.2. Historical financial position of the Group

The following table summarises the consolidated balance sheet of the Group as at 31 December 2021 with reference to the 2021 Annual Report:

	As at 31 December 2021 <i>HK\$ million</i> (Audited)
Non-current assets	619
Current assets	<u>993</u>
Total assets	1,612
Current liabilities	945
Non-current liabilities	<u>180</u>
Total liabilities	1,125
Net assets attributable to equity holders of the Company	485
Non-controlling interests	<u>2</u>
Net assets	<u><u>487</u></u>

As at 31 December 2021, (i) the principal assets of the Group was investment properties, which amounted to approximately HK\$526 million, and cash held on behalf of clients, which amounted to approximately HK\$452 million; and (ii) the principal liabilities of the Group was interest-bearing bank and other borrowings, which amounted to approximately HK\$478 million (including current portion of approximately HK\$382 million and non-current portion of approximately HK\$96 million). Net assets attributable to equity holders of the Company amounted to approximately HK\$485 million as at 31 December 2021.

For further details of the financial information of the Group, please refer to the financial reports published by the Company.

1.3. Prospects of the Group

As stated in the 2021 Annual Report, (i) with the emergence of Omicron variant and possible subsequent variants of the Coronavirus (also known as COVID-19), year 2022 is expected to be full of challenges and uncertainties; and (ii) apart from the COVID-19 pandemic, evolving global political and economic landscapes, geopolitical tensions of the Russia-Ukraine conflict, the US-China trade war, rising inflation and a necessity for higher interest rates, render the external financial and business environment more complex and uncertain. We also note from the 2021 Annual Report that the major risks and uncertainties that may affect the Group include, among other things, (i) fluctuations of fair value gain or loss on financial assets, foreign exchange and investment properties; (ii) changes in market interest rates may expose the Group to high interest expense on its net debt obligations carrying floating interest rates; and (iii) the uncertainties of fiscal, political and monetary policy developments would contribute partly to the high volatility of global markets which may directly or indirectly affect the performance of the Group.

In respect of the aforesaid, we have reviewed information published on the website of the Hong Kong Monetary Authority in the recent one month, from which we noted, among other things, that (i) moving into 2022, investors were treading on thin ice when managing their assets amid multiple uncertainties, ranging from the evolving COVID-19 pandemic situation and rising inflation, to policy shifts by major central banks, where the geopolitical crisis in Russia and Ukraine since February 2022 was perhaps the “last straw” that triggered huge swings in asset prices in equity, bond and currency markets, posing significant challenges to investors all over the world; and (ii) following the 50-basis point upward adjustment in the target range for the US federal funds rate on 4 May 2022 (US time), the Hong Kong Monetary Authority has adjusted the Base Rate upward by 50 basis points to 1.25%.

Based on the aforesaid, we understand the macro-economic environment may not be favourable to the Group and, in view of the continuous unsatisfactory financial performance of the Group in the past few years, we consider the prospects of the Group to be clouded by uncertainties.

2.1. Background of and reasons for the Supplemental Agreement

As detailed in the circular of the Company dated 15 May 2020 (the “**2020 Circular**”), the Company proposed to issue the Convertible Bonds to the Bondholder in an aggregate principal amount of HK\$50 million, where the Convertible Bonds bears no interest and are convertible into Shares. The issuance of the Convertible Bonds was approved by the then independent shareholders of the Company at the extraordinary general meeting held on 2 June 2020 and was completed on 30 June 2020. As at the Latest Practicable Date, the Convertible Bonds with an aggregate amount of HK\$50 million held by the Bondholder is still outstanding. All outstanding Convertible Bonds will mature on 30 June 2023 pursuant to the original terms and conditions of the Convertible Bonds. On 16 May 2022, the Company and the Bondholder entered into the Supplemental Agreement to extend the Maturity Date of the Convertible Bonds (i.e. the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Proposed Extension) from 30 June 2023 to 30 June 2026 by way of execution of the Amendment Deed. Save for the Proposed Extension, all terms of the Convertible Bonds remain unchanged and in full force.

As stated in the “Letter from the Board” in the Circular, the Proposed Extension effectively allows the Group to enjoy more flexibility in planning its financial resources as the extended Maturity Date will enable the Group to prioritise the use of its financial resources to fund its operations, business development and potential investments in the long run which have been materially affected by the COVID-19 instead of repayment of the Convertible Bonds upon its maturity, which in turn aims at maximising the returns to the Shareholders.

In respect of the potential repayment or refinancing of the Convertible Bonds (being alternatives to the Proposed Extension), we have reviewed the 2021 Annual Report and we noted that (i) the net proceeds from the Convertible Bonds had already been fully utilised; (ii) the Group had cash and bank balances of approximately HK\$90 million and net current assets of approximately HK\$47 million as at 31 December 2021; (iii) the ratio of interest-bearing bank and other borrowings to total equity of the Group was approximately 98% as at 31 December 2021; (iv) the floating rate bank loans of the Group had effective interest rates ranging from HIBOR +1.25% to HIBOR +3.75% for the year ended 31 December 2021; (v) the fixed rate secured bank loans of the Group had effective interest rates ranging from approximately 5.2% to 5.7% per annum for the year ended 31 December 2021; and (vi) other unsecured loans of the Group had effective interest rates ranging from approximately 6.5% to 7.0% per annum for the year ended 31 December 2021. Moreover, we note that the principal amount of HK\$50 million of the Convertible Bonds represented approximately 71% of the market capitalisation of the Company of approximately HK\$70 million as at the date of the Supplemental Agreement. In view of the aforesaid and the loss making financial performance of the Group in the past few years, we understand that (i) the repayment of the Convertible Bonds would reduce the working capital of the Group and hamper the business development of the Group; (ii) refinancing the Convertible Bonds with bank loans would incur interest that would cause further financial burden to the Group, in particular, the market interest rate is currently on a rising trend as previously discussed; and (iii) refinancing the Convertible Bonds through equity fund raising exercise (such as placing of new shares, rights issue or open offer) would cause an immediate and material dilution to all Shareholders (including the Independent Shareholders) who do not participate in the exercise. Hence, we understand that ascertaining the Proposed Extension ahead of the existing Maturity Date allows the Group to better plan and manage its working capital and gearing positions to reduce exposure to financial risks, such as the risk of the need to refinance at a higher interest rate when the Convertible Bonds fall due on the approaching Maturity Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account, in particular, (i) save for the Proposed Extension, all terms of the Convertible Bonds remain unchanged and in full force; (ii) the Convertible Bond is interest-free, whereas the market interest rate is currently on a rising trend; (iii) the Group has been loss making in the past few years and the repayment of the Convertible Bonds would reduce the working capital and cash resources of the Group and hamper the business development of the Group; (iv) the ratio of interest-bearing bank and other borrowings to total equity of the Group was approximately 98% as at 31 December 2021; and (v) the terms of the Proposed Extension contemplated under the Supplemental Agreement are fair and reasonable as discussed below, we are of the view that the Proposed Extension contemplated under the Supplemental Agreement is a financing activity ancillary and incidental to the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

2.2. Principal terms of the Supplemental Agreement

The Supplemental Agreement extends the Maturity Date of the Convertible Bonds (i.e. the Proposed Extension) from 30 June 2023 to 30 June 2026 by way of execution of the Amendment Deed. Save for the Proposed Extension, all terms of the Convertible Bonds remain unchanged and in full force. The following sets out the existing principal terms of the Convertible Bonds, which was approved by the then independent shareholders of the Company at the extraordinary general meeting held on 2 June 2020. For further details of the terms, please refer to the 2020 Circular and the letter from the Board in the Circular.

Principal amount:	HK\$50,000,000
Interest rate:	Nil
Maturity Date:	The date falling on the third anniversary of the Issue Date (i.e. 30 June 2023 and, following the alteration by the Proposed Extension, 30 June 2026)
Conversion price:	HK\$0.22 per Conversion Share

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Conversion right:

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

Redemption upon maturity:

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

Redemption by the Company:

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

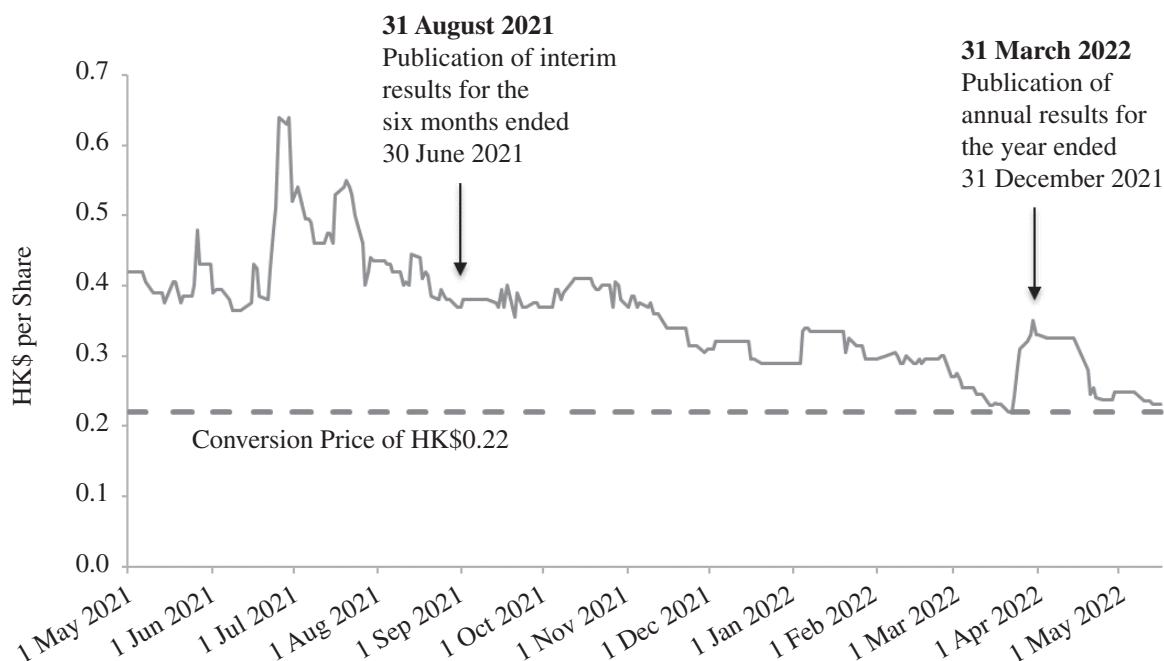
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Redemption by the
Bondholder(s):

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

Price performance of the Shares

We have reviewed the historical price performance of the Shares. The chart below depicts the closing prices of the Shares from 1 May 2021, being approximately one full calendar year before the date of the Supplemental Agreement, up to and including the date of the Supplemental Agreement (the “**Review Period**”). Given the duration of the Review Period of one year (i) can adequately reflect the recent market trend of the pricing of the Shares in view of the ever changing market environment, where the pricing dated a long time ago would be less representative of the current prevailing environment; and (ii) is in line with the usual market practice for market pricing review, we consider such duration to be fair and representative.



With reference to the above chart for the Review Period, the closing prices of the Shares was around HK\$0.40 per Share in May and June 2021 and soared to the highest price of HK\$0.64 per Share in late June 2021. Since then, the closing prices demonstrated

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a decline trend for about nine months and reached the lowest price of HK\$0.22 per Share on 21 March 2022 and 22 March 2022. Afterwards, the closing prices rebounded to HK\$0.35 per Share on 30 March 2022, but the closing prices demonstrated a decline trend again following the publication of the annual results announcement of the Company for the year ended 31 December 2021 on 31 March 2022. As at the date of the Supplemental Agreement, the closing price was HK\$0.232 per Share.

We note that (i) the closing prices of the Shares overall demonstrated a decline trend during the Review Period, where the highest closing price recorded in late June 2021 and the lowest closing price recorded in late March 2022 represented a decline of approximately 66%; (ii) the Conversion Price equals the lowest closing price recorded no more than two months before the date of the Supplemental Agreement; and (iii) the Conversion Price of HK\$0.22 per Conversion Share represents a discount of approximately 5% to the closing price of the Shares as at the date of the Supplemental Agreement, where we understand the Conversion Price to be very close to the recent market trading price of the Shares.

Liquidity of the Shares

We have also reviewed the historical liquidity of the Shares. The following table sets out the average daily trading volume per month of the Shares during the Review Period:

	Average daily trading volume of Shares during the month	Percentage of average daily trading volume of Shares to the total number of issued Shares
2021		
May	47,429	0.02%
June	315,663	0.10%
July	50,968	0.02%
August	53,864	0.02%
September	27,943	0.01%
October	29,556	0.01%
November	84,227	0.03%
December	11,750	0.00%
2022		
January	82,075	0.03%
February	35,298	0.01%
March	25,733	0.01%
April	111,845	0.04%
May (up to the date of the Supplemental Agreement)	12,000	0.00%

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We note from the above table that the trading volume of the Shares was extremely thin during the Review Period, where the percentages of the average daily trading volume of the Shares to the total number of issued Shares were mainly below or around 0.05%. We also note that, upon exercise of the conversion rights under the Convertible Bonds in full, a total of 227,272,727 new Shares (being the Conversion Shares) may be allotted and issued to the Bondholder (subject to certain restrictions), representing approximately 75.44% of the total number of issued Shares as at the Latest Practicable Date and approximately 43.00% of the enlarged total number of issued Shares. Accordingly, the Bondholder would find it difficult to dispose of a large volume of Shares, such as substantial part or all the Conversion Shares, in the open market within a short period of time without exerting material downward pressure on the price of the Shares. The Independent Shareholders should note that (i) the large issue size of the Conversion Shares is based on the existing principal terms of the Convertible Bonds, which were already approved by the then independent shareholders of the Company at the extraordinary general meeting held on 2 June 2020; and (ii) the potential dilution effect has already been ongoing, rather than an additional impact, in regard to the entering into of the Supplemental Agreement which purely extends the existing Maturity Date with all other terms of the Convertible Bonds remain unchanged, for the purpose of preserving cash resources (rather than repaying the proceeds from the Convertible Bonds to the Bondholder) in view of the uncertain business environment. For further details of such ongoing potential dilution effect, please refer to the section headed “Financial and dilution impacts of the Convertible Bonds” below.

Comparable analysis

In addition, we have exhaustively identified a list of comparable issues (the “**Comparable Issues**”), which (i) involved the issue of or the entering into of relevant deeds in relation to convertible bonds for shares listed on the Main Board of the Stock Exchange; and (ii) the issues were announced within three months before the date of the Supplemental Agreement. In view of the aforesaid criteria, we consider the Comparable Issues to be fair and representative for the purpose of conducting a comparable analysis for reference, nonetheless the Independent Shareholders should note that the Conversion Price had already been fixed and agreed between the Company and the Bondholder approximately two years ago, where the terms of the Convertible Bonds had already been

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considered as fair and reasonable as set out in the 2020 Circular, and the issuance of the Convertible Bonds was approved by the then independent Shareholders in June 2020. The details of the Comparable Issues are set out in the following table.

Announcement date	Name of company (stock code)	Maturity (year)	Interest rate per annum	Premium/ (discount) of the conversion price over/to the closing price of shares as at the date of relevant agreement or deed
30 March 2022	China Parenting Network Holdings Limited (1736 HK)	1	5.0%	28%
1 April 2022	CIFI Holdings (Group) Co. Ltd. (884 HK)	3	7.0%	20%
12 April 2022	CIFI Holdings (Group) Co. Ltd. (884 HK)	3	7.0%	19%
21 April 2022	IBO Technology Company Limited (2708 HK)	2	0.0% ⁽¹⁾	3%
21 April 2022	China Baoli Technologies Holdings Limited (164 HK)	1	0.0% ⁽¹⁾	4%
4 May 2022	China Ecotourism Group Limited (1371 HK)	1	7.0%	Excluded outlier ⁽²⁾
5 May 2022	China Infrastructure Investment Limited (600 HK)	1	8.0%	1%
12 May 2022	Grown Up Group Investment Holdings Limited (1842 HK)	2	2.5%	(20%) ⁽³⁾
13 May 2022	Huazhang Technology Holding Limited (1673 HK)	2	12.0%	0%
	Maximum	3	12.0%	28%
	Average	2	5.4%	7%
	Median	1	7.0%	4%
	Minimum	1	0.0%	(20)%
The Proposed Extension as at 16 May 2022		3	0.0%	(5)%

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Notes:

1. These convertible bonds are interest free and they were issued to settle acquisition consideration.
2. The premium over the closing price on 4 May 2022 was approximately 2,280%, which may be attributable to the fact that it was an amendment to, among other things, the maturity date, repayment schedule and interest rate of the convertible bonds previously issued in year 2017, but the conversion price was not amended.
3. After the announcement in relation to the Proposed Extension was published by the Company, the subject listed company published an announcement on 16 May 2022 in relation to the revision of the conversion price such that the conversion price would be at the closing price of the date of the agreement.

Analysis

We note that the Proposed Extension of three years is within the range of those of the Comparable Issues and therefore in line with market practice. The Independent Shareholders should note that, although the Proposed Extension would imply a total duration of six years for the Convertible Bonds (i.e. since the date of issue of the Convertible Bond), we consider the duration of the extension period (rather than the total duration) should be primarily taken into account when performing the above comparable analysis because (i) the past periods are historical, where the relevant duties and obligations under such past periods have already been completed, and our analysis is on the duration of the upcoming period to be bounded by the parties under the subject renewal agreement (i.e. the Supplemental Agreement), where an evaluation on the number of years which had already passed is irrelevant and not meaningful for our analysis; (ii) the existing Maturity Date is approaching; and (iii) the duration of the Comparable Issues were evaluated on the same basis, i.e. the total duration in respect of a new issue or the extension period in respect of a renewal. Moreover, from the perspective of the extension of an interest-free borrowing, particularly when all the funds from the borrowing had already been utilised and market interest rates in coming years are widely anticipated to be on a rising trend, we consider a longer extension period for the repayment timeframe would be more favourable to the Company and the Shareholders (including the Independent Shareholders) as a whole.

We also note that the Conversion Price represents a discount of approximately 5% to the closing price of the Shares as at the date of the Supplemental Agreement, whereas the majority of the Comparable Issues were at premium, however, we consider this should not be solely considered and should instead be collectively considered with other factors (including the background and the other terms of the convertible bonds) for our assessment of the Supplemental Agreement.

Despite the large issue size of the Convertible Bonds, after primarily taking into account, (i) the Proposed Extension of three years is in line with general market practice and allows the Group to extend its repayment timeframe of the already existing Convertible Bonds, where ascertaining the Proposed Extension ahead of the existing Maturity Date allows the Group to better plan and manage its working capital and gearing positions to reduce exposure to probable financial risks, particularly when the market

interest rate is currently on a rising trend, as previously discussed; (ii) the Deed of Amendment purely extends the existing Maturity Date, where all other terms of the Convertible Bonds, including the Conversion Price, remain unchanged; (iii) the terms of the Convertible Bonds were considered to be fair and reasonable and the issuance of the Convertible Bonds was approved by the then independent Shareholders when the Convertible Bonds were issued approximately two years ago; (iv) the Convertible Bonds are interest-free and were issued for the business operating needs of the Group, whereas the Comparable Issues that were interest-free were issued for the settlement of acquisition consideration; (v) the Group has been loss making in the past few years and the net proceeds of the Convertible Bonds had already been fully utilised and, if the Amendment Deed does not come into effect and the Convertible Bonds were not converted, the Group might have to make repayments to the Bondholder or refinance on or before the upcoming Maturity Date, which would cause considerable financial burdens to the Group as previously discussed; (vi) the liquidity of the Shares were extremely thin, where the disposal of a large volume of Shares, such as all of the Conversion Shares, in the open market within a short period of time may not be practicable without exerting material downward pressure on the price of the Shares; (vii) the market prices of the Shares were on a significant decline trend during the Review Period, implying a significant reduction in the discount represented by the Conversion Price during the period; and (viii) the conversion price of five out of six of the most recent Comparable Issues (all being within one-month of the Supplemental Agreement) were either at a premium of less than 5% or at no premium, we are of the view that the terms of the Proposed Extension contemplated under the Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

2.3. Financial and dilution impacts of the Convertible Bonds

We have discussed with, and have been advised by, the Management that the Supplemental Agreement is not expected to additionally lead to any immediate financial impact to the Group given the Convertible Bonds were already issued in June 2020 and the Supplemental Agreement only extends the existing Maturity Date.

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

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issued Shares from the Latest Practicable Date up to the date of full conversion of the Convertible Bonds). For further details of the shareholding structure of the Company, please refer to the letter from the Board in the Circular.

	As at the Latest Practicable Date		Upon conversion of the Convertible Bonds not resulting the Bondholder and the parties acting concert with it exceeding the 2% creeper rule under Rule 26.1 of the Takeovers Code		Upon full conversion of the Convertible Bonds	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Bondholder	—	—	10,266,952 ⁽¹⁾	3.30	227,272,727	43.00
Parties acting in concert with the Bondholder	<u>118,435,918</u>	<u>39.31</u>	<u>118,435,918</u>	<u>38.01</u>	<u>118,435,918</u>	<u>22.41</u>
Subtotal	118,435,918	39.31	128,702,870	41.31	345,708,645	65.41
Hon. Raymond Arthur William Sears, Q.C. (a Director)	53,000	0.02	53,000	0.02	53,000	0.01
Other public Shareholders	<u>182,788,152</u>	<u>60.67</u>	<u>182,788,152</u>	<u>58.67</u>	<u>182,788,152</u>	<u>34.58</u>
Total	<u>301,277,070</u>	<u>100.00</u>	<u>311,544,022</u>	<u>100.00</u>	<u>528,549,797</u>	<u>100.00</u>

Note:

- Assuming the aggregate amount held by the Bondholder and the parties acting in concert with it as at the Latest Practicable Date would not increase by more than 2% for illustration purpose only.

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

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We note that, in the extreme scenario where the Convertible Bonds are fully converted, the shareholding of the other public Shareholders as shown in the above table would theoretically be diluted from approximately 60.67% to 34.58%. With reference to the letter from the Board in the Circular, we understand the theoretical value dilution of the Convertible Bonds calculated based on the benchmark price of approximately HK\$0.238 (being the average closing price in the five trading days before the date of the Supplemental Agreement) is approximately 3%. After primarily taking into account, (i) the Convertible Bonds were already issued in June 2020; (ii) the Supplemental Agreement purely extends the existing Maturity Date, where all other terms of the Convertible Bonds remain unchanged, and does not cause any additional further dilution to the Independent Shareholders; (iii) the Convertible Bonds are interest-free and were issued for the business operating needs of the Group, where the Group has been loss making in the past few years and the net proceeds of the Convertible Bonds had already been fully utilised; (iv) the ratio of interest-bearing bank and other borrowings to total equity of the Group was approximately 98% as at 31 December 2021 and, if the Amendment Deed does not come into effect and the Convertible Bonds were not converted, the Group might have to make repayment to the Bondholder or refinance on or before the upcoming Maturity Date, which would cause considerable financial burdens to the Group; (v) the Company may at any time during the period commencing from the Issue Date and expiring on the Maturity Date redeem the whole or part of the outstanding Convertible Bonds; (vi) the reasons for the Supplemental Agreement as previously discussed; (vii) the Bondholder did not convert any of the Convertible Bonds since the Convertible Bonds were issued, even when the exercise price had represented significant discount to the then market trading price of the Shares during the Review Period; (viii) the extent of the conversion of the Convertible Bonds is subject to the Takeovers Code, such as triggering a general offer or application for a whitewash waiver which would require a separate approval from the Independent Shareholders; and (ix) the terms of the Proposed Extension contemplated under the Supplemental Agreement are on normal commercial terms and are fair and reasonable as aforementioned, we consider the theoretical value dilution and the potential dilution impacts (being the continuation of the ongoing potential dilution impacts, rather than the creation of any further potential dilution impacts) of the Convertible Bonds under the Supplemental Agreement to be acceptable.

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RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Proposed Extension contemplated under the Supplemental Agreement is a financing activity which is ancillary and incidental to the ordinary and usual course of business of the Group, and is in the interests of the Company and the Shareholders as a whole; and the terms of the Proposed Extension contemplated under the Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Proposed Extension contemplated under the Supplemental Agreement.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Nicholas Cheng
Director

Roger Tang
Vice President

Note: Mr. Nicholas Cheng has been a Responsible Officer and Mr. Roger Tang has been a Representative of Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Both of them have extensive experience in the corporate finance industry and have participated in, and completed, the provision of independent financial advisory services for numerous connected transactions involving listed companies in Hong Kong.

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' INTERESTS

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

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director or chief executive of the Company was taken or is deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of interest (Note 1)	Number of Shares held	Number of underlying Shares held	Percentage of issued share capital of the Company as at the Latest Practicable Date (%)
Mr. Ng (Note 5)	Interest of a controlled corporation (Note 2)	77,328,343	227,272,727 (Note 3)	101.10
	Beneficial owner	11,609,264	—	3.85
Ms. Cheung Choi Ngor	Beneficial owner	12,300,311	—	4.08
Hon. Raymond Arthur William Sears, Q.C.	Interest of spouse (Note 4)	53,000	—	0.02

Notes:

1. All interests stated are long position.

2. Uni-Spark, Fung Shing, Parkfield and Ronastar, which held 7,178,761 Shares, 23,526,030 Shares, 44,623,680 Shares and 1,999,872 Shares, respectively, as at the Latest Practicable Date, were wholly-owned by Mr. Ng.
3. Total Grace Investments Limited is a company wholly-owned by Mr. Ng which holds the convertible bonds issued by the Company in the principal amounts of HK\$50,000,000. Assuming (i) the conversion right under the convertible bonds are exercised in full; and (ii) there is no other change to the total number of issued shares, a total of 227,272,727 new shares will be allotted and issued to Total Grace Investments Limited, representing approximately 75.44% as at the Latest Practicable Date and approximately 43.00% of the total number of issued shares as enlarged by the allotment and issue of the conversion shares.
4. Under the SFO, Hon. Raymond Arthur William Sears, Q.C. is deemed to be interested in the 53,000 Shares.
5. Mr. Ng is the sole director of Parkfield, Fung Shing and the Bondholder.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and their respective associates had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, entered in the register referred to therein; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

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

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons (other than Directors and chief executive of the Company) had or deemed or taken to have an interest or a short position in the Shares and/or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of person/entity	Number of Shares	Number of underlying Shares	Capacity	Approximate % of interest
Parkfield	44,623,680	—	Beneficial owner	14.81
Fung Shing	23,526,030	—	Beneficial owner	7.81
The Bondholder	—	227,272,727	Beneficial owner	75.44
Ms. Ng Lai King Pamela	316,210,334	—	Interest of spouse (Note)	104.95

Note: Under the SFO, Ms. Ng Lai King Pamela, being the spouse of Mr. Ng, is deemed to be interested in the 88,937,607 Shares and 227,272,727 underlying shares.

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

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save for the Subscription Agreement and the Supplemental Agreement, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group. As at the Latest Practicable Date, none of the Directors had any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up.

4. COMPETING INTERESTS

The Company and South China Assets Holdings Limited (“SCAH”), the issued shares of which were listed on GEM of the Stock Exchange and were delisted on GEM of the Stock Exchange in March 2022, have certain common directors. SCAH and its subsidiaries are principally engaged in (i) property development and property project management services in the PRC; (ii) financial services (subsidiaries of SCAH are holding licences for types 1, 2, 4 and 9 regulated activities under the SFO, and providing money lending services under Money Lenders Ordinance, Chapter 163 of the laws of Hong Kong) in Hong Kong; and (iii) the manufacturing and sale of medical face masks and related products.

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

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

The above mentioned common directors declare their interests in competing business and abstain from voting in transactions in which the Company and SCAH compete or is likely to compete with each other and, therefore, do not control the Board as far as transaction in relation to competing business is concerned. As such, the Board is independent from the board of SCAH, which consists of four (4) members to the best of the knowledge of the Directors, and the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of SCAH. Given the difference in business focus as referred to in the preceding paragraph, the competition between the businesses of the Company and SCAH is considered to be relatively remote.

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

5. DIRECTORS' SERVICE CONTRACTS

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

6. LITIGATION

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

7. MATERIAL CONTRACTS

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

- (i) the Subscription Agreement; and
- (ii) the Supplemental Agreement.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. QUALIFICATIONS AND CONSENT OF EXPERT

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

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

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

As at the Latest Practicable Date, the above expert had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.

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

10. MISCELLANEOUS

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

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sctrade.com) for a period of not less than fourteen (14) days from the date of this circular up to and including the date of EGM and is available for inspection at the EGM:

- (a) the articles of association of the Company;
- (b) the material contracts (including the Subscription Agreement and the Supplemental Agreement) as referred to in the paragraph headed “7. Material Contracts” in this Appendix;
- (c) the written consent of expert referred to in the paragraph headed “9. Qualifications and consent of expert” in this Appendix;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 22 and 23 in this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out on pages 24 to 41 in this circular; and
- (f) this circular.

NOTICE OF THE EGM



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of South China Financial Holdings Limited (the “**Company**”) will be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 21 June 2022 at 1:00 p.m. to consider and, if thought fit, pass the following resolution as ordinary resolution:

ORDINARY RESOLUTION

“THAT

- (a) the supplemental agreement (the “**Supplemental Agreement**”) dated 16 May 2022 entered into between the Company as issuer, Total Grace Investments Limited as bondholder (a copy of which marked “A” is produced to the EGM and signed by the chairman of the EGM for identification purposes) in relation to the proposed extension of the maturity date from 30 June 2023 to 30 June 2026, and the transactions as contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (b) subject to and conditional upon the fulfillment of the conditions set out in the Supplemental Agreement, any one or more Directors be and is/are hereby authorised to, for and on behalf of the Company, execute all such documents, instruments and agreements, and take such action, do all such acts or things, as he/she/they may, in his/her/their absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect or completion of any matters relating to the Supplemental Agreement and the transactions as contemplated thereunder.”

By order of the board of Directors of
South China Financial Holdings Limited

南華金融控股有限公司

Ng Yuk Mui Jessica

Executive Director

Hong Kong, 2 June 2022

NOTICE OF THE EGM

Registered office:

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

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares and entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the offices of the Company's share registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 48 hours before the time of the meeting or any adjourned meeting.
3. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 15 June 2022 to Tuesday, 21 June 2022 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with Union Registrars Limited, the share registrar of the Company, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 14 June 2022.
6. A form of proxy for use at the EGM is enclosed with the circular to the shareholders of the Company.
7. The ordinary resolution set out above will be determined by way of a poll.
8. To safeguard the health and safety of the shareholders of the Company and to prevent the spreading of the COVID-19 pandemic, certain precautionary measures will be implemented at the EGM, including (1) compulsory temperature screening/checks; (2) wearing of surgical face mask; and (3) no provision of refreshments or drinks or souvenir. Attendees who do not comply with the precautionary measures referred to in (1) and (2) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. For the health and safety of the shareholders of the Company, the Company would like to encourage shareholders of the Company to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.
9. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 8:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at www.sctrade.com and on the HKExnews website of the Stock Exchange at www.hkexnews.hk to notify the shareholders of the Company of the date, time and venue of the rescheduled meeting.