
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in Capital Finance Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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



Capital Finance Holdings Limited

首都金融控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 8239)

**(1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
(2) CONNECTED TRANSACTION:
PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
AND
(3) NOTICE OF SGM**

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



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

A notice convening the SGM to be held at Unit 2613A, 26th Floor, Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong, at 3:00 p.m. on Tuesday, 28 June 2022 is set out on pages SGM-1 to SGM-4 of this circular. A proxy form for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM (i.e. Sunday, 26 June 2022 at 3:00 p.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire and in such case, the proxy form shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE SGM

In view of an ongoing pandemic of coronavirus disease 2019 (COVID-19) and recent requirements for prevention and control of its spread by the HKSAR Government, the Company will implement the following prevention and control measures at the SGM against the COVID-19 pandemic to protect the Shareholders from the risk of infection:

- (i) every participant (including Shareholders or their proxies) in the SGM shall be subject to compulsory body temperature check at the entrance of the meeting venue and anyone with a body temperature higher than 37.3 degree Celsius will not be given access to the meeting venue;
- (ii) all participants (including Shareholders or their proxies) in the SGM are required to wear surgical face masks at all time during their attendance of the SGM; and
- (iii) no refreshment will be served, and there will be no corporate gifts.

Any person who does not comply with the precautionary measures or is subject to any HKSAR Government prescribed quarantine may be denied entry into the SGM venue. Furthermore, the Company wishes to advise the Shareholders that they may appoint any person or the chairman of the SGM as a proxy to vote on the relevant resolutions, instead of attending the SGM in person.

In the interest of all stakeholders' health and safety and consistent with recent guidelines for prevention and control of the COVID-19 pandemic, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person.

13 June 2022

CONTENTS

	<i>Page</i>
CHARACTERISTIC OF GEM	1
DEFINITIONS	2
LETTER FROM THE BOARD	7
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	45
LETTER FROM GIRAFFE CAPITAL	47
APPENDIX — GENERAL INFORMATION	104
NOTICE OF SGM	SGM-1

CHARACTERISTIC OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

DEFINITIONS

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

“2014 Bondholders”	the holders of the 2014 Convertible Bonds
“2014 Convertible Bonds”	the zero coupon convertible bonds due on 24 June 2022 in an aggregate principal amount of HK\$420,200,000 issued by the Company on 25 June 2014 and with outstanding principal of HK\$99,840,000 as at the date of the Announcement
“2015 Bondholders”	the holders of the 2015 Convertible Bonds
“2015 Convertible Bonds”	the zero coupon convertible bonds due on 5 February 2023 in an aggregate principal amount of HK\$236,000,000 issued by the Company on 6 February 2015 and with outstanding principal of HK\$185,400,000 as at the date of the Announcement
“2022 CB Subscription”	the subscription of the 2022 Convertible Bonds by the 2022 CB Subscribers
“2022 CB Subscribers”	together Bustling Capital and Choice Magic, which are also 2014 Bondholders and each a “2022 CB Subscriber”
“2022 CB Subscription Agreements”	the conditional subscription agreements dated 4 April 2022 (as amended and supplemented on 6 June 2022) entered into between the Company as issuer and each of the 2022 CB Subscribers as subscriber respectively in relation to the subscription of the 2022 Convertible Bonds
“2022 Convertible Bonds”	the zero coupon convertible bonds due on 24 December 2023 in the aggregate principal amount of HK\$99,840,000 to be issued by the Company under the 2022 CB Subscription Agreements
“2023 CB Subscription”	the subscription of the 2023 Convertible Bonds by the 2023 CB Subscribers

DEFINITIONS

“2023 CB Subscribers”	together Exuberant Global and Mr. Liu, who are also 2015 Bondholders and each a “2023 CB Subscriber”
“2023 CB Subscription Agreements”	the conditional subscription agreements dated 4 April 2022 (as amended and supplemented on 6 June 2022) entered into between the Company as issuer and each of the 2023 CB Subscribers as subscriber respectively in relation to the subscription of the 2023 Convertible Bonds
“2023 Convertible Bonds”	the zero coupon convertible bonds due on 5 August 2024 in the aggregate principal amount of HK\$185,400,000 to be issued by the Company under the 2023 CB Subscription Agreements
“Announcement”	the announcement of the Company dated 4 April 2022 in relation to the proposed Increase in Authorised Share Capital and the proposed issue of the Convertible Bonds
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Bustling Capital”	Bustling Capital Limited, a company incorporated in the BVI with limited liability
“BVI”	The British Virgin Islands
“Choice Magic”	Choice Magic Limited, a company incorporated in the Republic of Seychelles with limited liability together with its ultimate beneficial owners are Independent Third Parties

DEFINITIONS

“Company”	Capital Finance Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Conversion Price”	the conversion price per Conversion Share and initially at HK\$0.05 per Conversion Share (subject to adjustments) of the Convertible Bonds
“Conversion Shares”	the Shares to be issued and allotted upon conversion of the Convertible Bonds
“Convertible Bonds”	together the 2022 Convertible Bonds and the 2023 Convertible Bonds
“Director(s)”	the director(s) of the Company
“Exuberant Global”	Exuberant Global Limited, a company incorporated in the BVI with limited liability
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“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”	the independent Board committee comprising all the independent non-executive Directors

DEFINITIONS

“Independent Financial Advisor” or “Giraffe Capital”	Giraffe Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, an independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee in respect of the proposed issue of the Convertible Bonds to the connected persons of the Company at the subsidiary level, the Subscription Agreements and the transactions contemplated thereunder respectively
“Independent Third Party(ies)”	third party(ies) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are independent of and not acting in concert or connected with the Company and its connected persons or any of their respective associates
“Independent Shareholders”	Shareholders other than the Subscribers and their respective associates
“Increase in Authorised Share Capital”	the proposed increase in authorised share capital of the Company from HK\$100,000,000 divided into 2,000,000,000 Shares to HK\$1,000,000,000 divided into 20,000,000,000 Shares
“Latest Practicable Date”	8 June 2022, being the latest practicable date for ascertaining certain information contained in this circular
“Mr. Liu”	Mr. Liu Yongli, an Independent Third Party
“PRC”	The People’s Republic of China and for the purpose of this circular only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be held on Tuesday, 28 June 2022 at 3:00 p.m. for the purpose of considering and, if thought fit, approving the Increase in Authorised Share Capital and the Subscription Agreements
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of issued share(s) of the Company from time to time
“Specific Mandate”	the specific mandate to be granted by the Independent Shareholders at the SGM to allot and issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	the 2022 CB Subscribers and the 2023 CB Subscribers
“Subscription”	the subscription of the Convertible Bonds contemplated under the Subscription Agreements
“Subscription Agreements”	the 2022 CB Subscription Agreements and the 2023 CB Subscription Agreements
“Substantial Shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
“%”	percentage

LETTER FROM THE BOARD



Capital Finance Holdings Limited

首都金融控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 8239)

Executive Directors:

Mr. Zhang Wei

(Chairman and Chief Executive Officer)

Ms. Li Wei

Independent non-executive Directors:

Mr. Chen Yihua

Mr. Lee Zak Yuen

Mr. Chan Ngai Fan

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place of
business in Hong Kong:*

Unit 2613A, 26th Floor

Mira Place Tower A

132 Nathan Road

Tsimshatsui

Kowloon, Hong Kong

13 June 2022

To the Shareholders,

Dear Sir or Madam,

**(1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
(2) CONNECTED TRANSACTION:
PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
AND
(3) NOTICE OF SGM**

INTRODUCTION

Reference is made to the announcements of the Company dated 4 April 2022, 29 April 2022 and 31 May 2022, the supplemental announcement of the Company dated 3 May 2022 and the announcement of the Company dated 13 June 2022 in relation to, among others, the proposed Increase in Authorised Share Capital and the entering into of the Subscription Agreements involving the issue of the Convertible Bonds, which constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to give you, among other things, (i) details of the Increase in Authorised Share Capital, the Subscription Agreements and other information as required under the GEM Listing Rules; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreements involving the issue of the Convertible Bonds; (iii) the letter of advice from Giraffe Capital to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreements involving the issue of the Convertible Bonds; (iv) general information of the Group; and (v) a notice of the SGM.

THE INCREASE IN AUTHORISED SHARE CAPITAL

In order to accommodate the growth of the Group and to provide the Company with greater flexibility for the issue of the Conversion Shares under the Convertible Bonds and other possible fund-raising activities in the future as and when necessary, the Board proposes to increase the authorised share capital of the Company from HK\$100,000,000 divided into 2,000,000,000 Shares to HK\$1,000,000,000 divided into 20,000,000,000 Shares by the creation of an additional 18,000,000,000 Shares. Subject to the passing of an ordinary resolution by the Shareholders at the SGM to approve the Increase in Authorised Share Capital, the Increase in Authorised Share Capital will become effective on the date of the SGM.

The Increase in Authorised Share Capital is conditional upon the passing of ordinary resolution by the Shareholders at the SGM. The Directors are of the view that the Increase in Authorised Share Capital is in the interests of the Company and the Shareholders as a whole.

BACKGROUND OF THE SUBSCRIPTION AGREEMENTS

As at the Latest Practicable Date, the 2014 Convertible Bonds in the aggregate principal amount of HK\$99,840,000 remain outstanding as follows:

- a. Bustling Capital holds a 2014 Convertible Bond in the outstanding principal amount of HK\$89,840,000 maturing on 24 June 2022; and
- b. Choice Magic holds a 2014 Convertible Bond in the outstanding principal amount of HK\$10,000,000 maturing on 24 June 2022.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the 2015 Convertible Bonds in the aggregate principal amount of HK\$185,400,000 remain outstanding as follows:

- a. Exuberant Global holds a 2015 Convertible Bond in the outstanding principal amount of HK\$179,000,000 maturing on 5 February 2023; and
- b. Mr. Liu holds a 2015 Convertible Bond in the outstanding principal amount of HK\$6,400,000 maturing on 5 February 2023.

The Company does not intend to exercise the early redemption rights in relation to the outstanding 2014 Convertible Bonds and 2015 Convertible Bonds before completion of the 2022 CB Subscription Agreements and 2023 CB Subscription Agreements, and it is expected that the outstanding principal amount of the 2014 Convertible Bonds will not change before completion of the 2022 CB Subscription Agreements and the outstanding principal amount of the 2015 Convertible Bonds will not change before completion of the 2023 CB Subscription Agreements.

THE SUBSCRIPTION AGREEMENTS

On 4 April 2022 (after trading hours), the Company entered into the conditional Subscription Agreements with the Subscribers respectively, pursuant to which each of the Subscribers has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Convertible Bonds.

(A) 2022 CB Subscription Agreements

Date: 4 April 2022 (as amended and supplemented on 6 June 2022)

Parties: (i) the Company as issuer; and
(ii) Bustling Capital and Choice Magic as the 2022 CB Subscribers.

Subject to fulfilment of the conditions precedent to the 2022 CB Subscription Agreements below, the 2022 CB Subscribers shall subscribe for the 2022 Convertible Bonds in aggregate principal amount of HK\$99,840,000 (as to HK\$89,840,000 and HK\$10,000,000 to Bustling Capital and Choice Magic respectively) under the respective 2022 CB Subscription Agreements and the said amounts shall be satisfied by setting off the respective outstanding principal amounts of the 2014 Convertible Bonds held by the relevant Subscribers respectively which shall fall due on 24 June 2022. The Setting Off (as defined below) is based on the terms of the 2014 Convertible Bonds, which allows early repurchase by the Company and is essentially an early redemption of the 2014 Convertible Bonds and there is no alternation of the terms of the 2014 Convertible Bonds.

LETTER FROM THE BOARD

Upon completion of the 2022 CB Subscription Agreements, all the outstanding 2014 Convertible Bonds shall be cancelled.

Save for the identity of the Subscribers and the amount of 2022 Convertibles Bonds to be subscribed, the substantial part of the salient terms of each 2022 CB Subscription Agreements are identical.

Conditions precedent to the 2022 CB Subscription

The 2022 CB Subscription is conditional upon:

- (i) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares;
- (ii) the Company having obtained all the required consents and approvals in respect of the 2022 CB Subscription Agreements and the transactions contemplated thereunder;
- (iii) the relevant Subscribers having obtained all the required consents and approvals in respect of the 2022 CB Subscription Agreements and the transactions contemplated thereunder;
- (iv) the passing of the relevant resolution(s) by the Shareholders in SGM (other than those who are required to abstain from voting or to vote in favour of the relevant resolution(s) as required by the GEM Listing Rules) in respect of, among other things, to approve the 2022 CB Subscription Agreements and the transactions contemplated thereunder, if applicable; and
- (v) the Increase in Authorised Share Capital becoming effective.

As at the Latest Practicable Date, condition (iii) above has been fulfilled.

In the event that the conditions of the Subscription are not fulfilled on or before 30 June 2022 (the “**Long Stop Date**”) or such other date as may be agreed between the parties to the 2022 CB Subscription Agreements, the 2022 CB Subscription Agreements shall cease and terminate and neither the Company nor the 2022 CB Subscribers shall have any obligations and liabilities under the 2022 CB Subscription Agreements.

The 2022 CB Subscribers have expressed that, in the event completion of the 2022 CB Subscription Agreements cannot be completed by 24 June 2022, each of them is willing to (a) grant forbearance to allow the Company to postpone repayment of the 2014 Convertible Bonds

LETTER FROM THE BOARD

from the original repayment date of 24 June 2022 to until the 2022 CB Subscription Agreements are completed or 31 August 2022, whichever is the earlier; and (b) extend the Long Stop Date to 31 August 2022 if the conditions of the Subscription are not fulfilled by 30 June 2022.

For the avoidance of doubt, the 2022 CB Subscription Agreements are not inter-conditional upon each other and are not inter-conditional upon the 2023 CB Subscription Agreements.

Completion

Completion will take place within the third business day after the conditions of the 2022 CB Subscription are fulfilled (or such other date as may be agreed between the respective parties).

The principal terms of the 2022 Convertible Bonds are as follows:

2022 Convertible Bonds

Issuer:	The Company
Aggregate principal amounts:	HK\$99,840,000
Interest:	Non-interest bearing
Maturity date:	24 December 2023
Security:	Unsecured
Conversion right:	The holder(s) of the 2022 Convertible Bonds shall have the rights to convert the whole or the part (in multiples of HK\$1,000,000) of the outstanding principal amount of the 2022 Convertible Bonds into the Conversion Shares at any time from the date of issue and up to the seventh day prior to the maturity date of the 2022 Convertible Bonds.

LETTER FROM THE BOARD

Conversion restriction: The holder(s) of the 2022 Convertible Bonds shall not have the right to convert the 2022 Convertible Bonds to the extent that immediately after such conversion (i) there will not be sufficient public float of the Shares as required under the GEM Listing Rules; or (ii) the holder(s) of the 2022 Convertible Bonds together with parties acting in concert with it will, in aggregate, control or be interested in 30% or such percentage of the voting rights of the Company which the holder(s) of the 2022 Convertible Bonds would be obliged to make a general offer under the Takeovers Code.

Conversion price: HK\$0.05 per Conversion Share, subject to anti-dilutive adjustments.

Provision of adjustment to the Conversion Price: The Conversion Price will be adjusted upon the occurrence of the following events:

- (a) if and whenever there is an alternation of the number of issued Shares by reason of any consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alternation by the following fraction:

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

where:

A = the number of Shares in issue immediately before such alternation; and

B = the number of Shares in issue immediately after such alternation.

Such adjustment shall become effective from the close of business in Hong Kong on the business day immediately preceding the date on which the alternation takes effect.

LETTER FROM THE BOARD

- (b) if and whenever the Company shall issue any Shares (excluding Shares paid up out of profits or reserves and issued in lieu in whole or in part of a cash dividend) credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{C}{D}$$

where:

C = the number of Shares in issue immediately before such issue; and

D = the number of Shares in issue immediately after such issue.

Each such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date of such issue.

LETTER FROM THE BOARD

- (c) if and whenever the Company shall grant rights to Shareholder to acquire any cash assets of the Company or any subsidiaries of the Company, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such grant of rights by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price on the date on which the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of such grant; and

F = the fair market value on the date of such announcement or (as the case may require) the immediately preceding date, as determined in good faith by an approved investment bank of such rights which is attributable to one Share.

Provided that:

- (i) if in opinion of the relevant approved investment bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the amount of the said market price which should properly be attributed to the value of the rights; and
- (ii) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

LETTER FROM THE BOARD

Each such adjustment shall be effective (if appropriately retroactively) from the commencement of the day next following the record date for such grant.

- (d) if and whenever the Company shall offer to the Shareholders new Shares for subscription by way of rights, or grant the Shareholders any options or warrants to subscribe for new Shares, at a price which is less than 80% of the market price at the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such issue or grant by the following fraction:

$$\frac{G + \frac{H \times I}{J}}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered or granted for subscription; and

I = the sum of the amount (if any) payable for the right, option or warrant to subscribe for each new Share and the subscription price payable for each new Share; and

J = the market price of one Share on the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement date of the day next following the record date of such offer or grant.

LETTER FROM THE BOARD

- (e) (i) if and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the Total Effective Consideration per Share (as defined below) initially receivable for such securities is less than 80% of the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

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

where:

A = the number of Shares in issue immediately before the date of the issue;

B = the number of Shares which the Total Effective Consideration for the securities issued would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription right conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on a business day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

LETTER FROM THE BOARD

- (ii) if and whenever the rights of conversion or exchange or subscription attached to any such securities as mentioned in subparagraph (e)(i) above are modified so that the Total Effective Consideration per Share (as defined below) initially received for such securities shall be (1) reduced and (2) less than 80% of the market price at the date of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

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

where:

A = the sum of the number of Shares in issue immediately before the date of such modification;

B = the number of Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

LETTER FROM THE BOARD

Such adjustment shall become effective (if appropriate retrospectively) as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take into account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purpose of this sub-paragraph (e), the “**Total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

LETTER FROM THE BOARD

- (f) If and whenever the Company shall issue wholly for cash any Shares (excluding the circumstances as described under sub-paragraphs (d) and (e)) at a price per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by the following fraction:

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

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate amount payable for the issue would purchase at such market price; and

C = the number of Shares so issued.

Such adjustment shall become effective on the date of the issue.

LETTER FROM THE BOARD

- (g) if and whenever the Company shall issue Shares for the acquisition of assets at a Total Effective Consideration (as defined below) which is less than 80% of the market price (as defined below) at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted in such manner as may be determined by an approved investment bank. Such adjustment shall become effective on the date of issue. For the purpose of this subparagraph (g) “**Total Effective Consideration**” shall be the aggregate consideration credited as being paid for such Share by the Company on acquisition of the relevant asset without any deduction of any commission, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “**Total Effective Consideration per Share**” shall be the Total Effective Consideration divided by the number of Shares issued as aforesaid.
- (h) if and whenever the Company shall make any capital distribution to the Shareholders (whether on a reduction of capital or otherwise), the Conversion Price in force immediately prior to such distribution shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of the capital distribution; and

F = the fair market value on the day of such announcement or (as the case may require) the immediately preceding day, as determined in good faith by an approved investment bank of the capital distribution which is attributable to one Share.

LETTER FROM THE BOARD

Provided that:

- (i) if in the opinion of the relevant approved investment bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the amount of the said market price which should properly be attributed to the value of the capital distribution; and
- (ii) the provisions of this sub-paragraph (h) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the capital distribution.

Ranking:

The Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with all other existing Shares in issue on the date of the conversion notice and shall be entitled to all dividends, other distributions, interests and entitlements.

Transferability:

Subject to the compliance with the GEM Listing Rules and other applicable laws and regulations, the 2022 Convertible Bonds may be transferred or assigned by the holder(s) of the 2022 Convertible Bonds in whole or in part in multiples of HK\$1,000,000 to any party provided that no transfer or assignment of the 2022 Convertible Bonds shall be made to any connected person of the Company (save and except for the associates of the holder(s) of the 2022 Convertible Bonds) without the prior consent of the Company.

Redemption:

Unless previously converted, the Company shall pay 105% of the outstanding principal amount under the 2022 Convertible Bonds to the holder(s) of the 2022 Convertible Bonds on the maturity date of the 2022 Convertible Bonds.

LETTER FROM THE BOARD

- Early redemption: The Company or any of its subsidiaries may at any time prior to the maturity date redeem the 2022 Convertible Bonds at any price as mutually agreed between the Company or its relevant subsidiary and the holder(s) of the 2022 Convertible Bonds. The 2022 Convertible Bonds redeemed will be cancelled forthwith.
- Event of default: Customary events of default
- Upon the occurrence of an event of default, subject to a special resolution passed by a majority of not less than three-fourths of votes cast by the holder(s) of the 2022 Convertible Bonds at a meeting of the holder(s) of the 2022 Convertible Bonds or a written resolution signed by the holder(s) of the 2022 Convertible Bonds which amounted to three-fourths of the then outstanding principal amounts of the 2022 Convertible Bonds, the 2022 Convertible Bonds shall become immediately repayable at a redemption premium calculated with reference to an annual rate of return of 6%.
- Interest shall be chargeable on any amount outstanding from the 2022 Convertible Bonds from the date of the event of default until the actual date of payment.
- Voting rights: The 2022 Convertible Bonds shall not carry any voting rights.
- Listing: No application will be made by the Company for the listing of the 2022 Convertible Bonds on the Stock Exchange. Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

LETTER FROM THE BOARD

Save as disclosed below, there is no other major changes in the terms of the 2014 Convertible Bonds as compared to the 2022 Convertible Bonds:

- (i) the maturity date of the 2014 Convertible Bonds shall be 24 June 2022 and the maturity date of the 2022 Convertible Bonds shall be 24 December 2023;
- (ii) the initial conversion price of the 2014 Convertible Bonds was HK\$0.35 per conversion share which has been adjusted to the current conversion price of HK\$1.75 per conversion share, and the initial Conversion Price of the 2022 Convertible Bonds shall be HK\$0.05 per Conversion Share; and
- (iii) the conversion period for the 2014 Convertible Bonds shall end on the seventh day prior to the maturity date of the 2014 Convertible Bonds, and the conversion period for the 2022 Convertible Bonds shall end on the seventh day prior to the maturity date of the 2022 Convertible Bonds.

On the assumption that the 2022 Convertible Bonds would be converted into Conversion Shares in full at the initial Conversion Price, 1,996,800,000 Conversion Shares will be issued, representing (1) approximately 197.35% of the existing issued share capital of the Company, (2) approximately 66.37% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares upon full conversion of the 2022 Convertible Bonds (assuming that no Conversion Shares to be allotted and issued under the 2023 Convertible Bonds), and (3) approximately 29.73% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares upon full conversion of the 2022 Convertible Bonds and the 2023 Convertible Bonds.

(B) 2023 CB Subscription Agreements

Date: 4 April 2022 (as amended and supplemented on 6 June 2022)

Parties: (i) the Company as issuer; and
(ii) Exuberant Global and Mr. Liu as the 2023 CB Subscribers.

Subject to fulfilment of the conditions precedent to the 2023 CB Subscription Agreements below, the 2023 CB Subscribers shall subscribe for the 2023 Convertible Bonds in aggregate principal amount of HK\$185,400,000 (as to HK\$179,000,000 and HK\$6,400,000 to Exuberant Global and Mr. Liu respectively) under the respective 2023 CB Subscription Agreements and the said amounts shall be satisfied by setting off the respective outstanding principal amounts of the 2015 Convertible Bonds held by the relevant Subscribers respectively which shall fall due on 5 February 2023. The Setting Off (as defined below) is based on the terms of the 2015 Convertible Bonds, which allows early repurchase by the Company and is essentially an early redemption of the 2015 Convertible Bonds and there is no alternation of the terms of the 2015 Convertible Bonds.

LETTER FROM THE BOARD

Upon completion of the 2023 CB Subscription Agreements, all the outstanding 2015 Convertible Bonds shall be cancelled.

Save for the identity of the Subscribers and the amount of 2023 Convertibles Bonds to be subscribed, the substantial part of the salient terms of each 2023 CB Subscription Agreements are identical.

Conditions precedent to the 2023 CB Subscription

The 2023 CB Subscription is conditional upon:

- (i) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares;
- (ii) the Company having obtained all the required consents and approvals in respect of the 2023 CB Subscription Agreements and the transactions contemplated thereunder;
- (iii) the relevant Subscribers having obtained all the required consents and approvals in respect of the 2023 CB Subscription Agreements and the transactions contemplated thereunder;
- (iv) the passing of the relevant resolution(s) by the Shareholders in SGM (other than those who are required to abstain from voting or to vote in favour of the relevant resolution(s) as required by the GEM Listing Rules) in respect of, among other things, to approve the 2023 CB Subscription Agreements and the transactions contemplated thereunder, if applicable; and
- (v) the Increase in Authorised Share Capital becoming effective.

As at the Latest Practicable Date, condition (iii) above has been fulfilled.

In the event that the conditions of the Subscription are not fulfilled on or before 30 June 2022 or such other date as may be agreed between the parties to the 2023 CB Subscription Agreements, the 2023 CB Subscription Agreements shall cease and terminate and neither the Company nor the 2023 CB Subscribers shall have any obligations and liabilities under the 2023 CB Subscription Agreements.

For the avoidance of doubt, the 2023 CB Subscription Agreements are not inter-conditional upon each other and are not inter-conditional upon the 2022 CB Subscription Agreements.

LETTER FROM THE BOARD

Completion

Completion will take place within the third business day after the conditions of the 2023 CB Subscription are fulfilled (or such other date as may be agreed between the respective parties).

The principal terms of the 2023 Convertible Bonds are as follows:

2023 Convertible Bonds

Issuer:	The Company
Aggregate principal amounts:	HK\$185,400,000
Interest:	Non-interest bearing
Maturity date:	5 August 2024
Security:	Unsecured
Conversion right:	The holder(s) of the 2023 Convertible Bonds shall have the rights to convert the whole or the part (in multiples of HK\$1,000,000) of the outstanding principal amount of the 2023 Convertible Bonds into the Conversion Shares at any time from the date of issue and up to the seventh day prior to the maturity date of the 2023 Convertible Bonds.
Conversion restriction:	The holder(s) of the 2023 Convertible Bonds shall not have the right to convert the 2023 Convertible Bonds to the extent that immediately after such conversion (i) there will not be sufficient public float of the Shares as required under the GEM Listing Rules; or (ii) the holder(s) of the 2023 Convertible Bonds together with parties acting in concert with it will, in aggregate, control or be interested in 30% or such percentage of the voting rights of the Company which the holder of the 2023 Convertible Bonds would be obliged to make a general offer under the Takeovers Code.
Conversion price:	HK\$0.05 per Conversion Share, subject to anti-dilutive adjustments.

LETTER FROM THE BOARD

Provision of adjustment to the
Conversion Price:

The Conversion Price will be adjusted upon the occurrence
of the following events:

- (a) if and whenever there is an alternation of the number
of issued Shares by reason of any consolidation,
subdivision or reclassification, the Conversion Price
shall be adjusted by multiplying the Conversion Price
in force immediately prior to such alternation by the
following fraction:

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

where:

A = the number of Shares in issue immediately before
such alternation; and

B = the number of Shares in issue immediately after
such alternation.

Such adjustment shall become effective from the close
of business in Hong Kong on the business day
immediately preceding the date on which the
alternation takes effect.

LETTER FROM THE BOARD

- (b) if and whenever the Company shall issue any Shares (excluding Shares paid up out of profits or reserves and issued in lieu in whole or in part of a cash dividend) credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{C}{D}$$

where:

C = the number of Shares in issue immediately before such issue; and

D = the number of Shares in issue immediately after such issue.

Each such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date of such issue.

LETTER FROM THE BOARD

- (c) if and whenever the Company shall grant rights to Shareholder to acquire any cash assets of the Company or any subsidiaries of the Company, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such grant of rights by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price on the date on which the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of such grant; and

F = the fair market value on the date of such announcement or (as the case may require) the immediately preceding date, as determined in good faith by an approved investment bank of such rights which is attributable to one Share.

Provided that:

- (i) if in opinion of the relevant approved investment bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the amount of the said market price which should properly be attributed to the value of the rights; and
- (ii) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Share paid out of profits or reserves and issued in lieu of a cash dividend.

LETTER FROM THE BOARD

Each such adjustment shall be effective (if appropriately retroactively) from the commencement of the day next following the record date for such grant.

- (d) if and whenever the Company shall offer to the Shareholders new Shares for subscription by way of rights, or grant the Shareholders any options or warrants to subscribe for new Shares, at a price which is less than 80% of the market price at the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such issue or grant by the following fraction:

$$\frac{G + \frac{H \times I}{J}}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered or granted for subscription; and

I = the sum of the amount (if any) payable for the right, option or warrant to subscribe for each new Share and the subscription price payable for each new Share; and

J = the market price of one Share on the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement date of the day next following the record date of such offer or grant.

LETTER FROM THE BOARD

- (e) (i) if and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the Total Effective Consideration per Share (as defined below) initially receivable for such securities is less than 80% of the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

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

where:

A = the number of Shares in issue immediately before the date of the issue;

B = the number of Shares which the Total Effective Consideration for the securities issued would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription right conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on a business day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

LETTER FROM THE BOARD

- (ii) if and whenever the rights of conversion or exchange or subscription attached to any such securities as mentioned in subparagraph (e)(i) above are modified so that the Total Effective Consideration per Share (as defined below) initially received for such securities shall be (1) reduced and (2) less than 80% of the market price at the date of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

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

where:

A = the sum of the number of Shares in issue immediately before the date of such modification;

B = the number of Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retrospectively) as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take into account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

LETTER FROM THE BOARD

For the purpose of this sub-paragraph (e), the “Total Effective Consideration” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration dividend by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

- (f) If and whenever the Company shall issue wholly for cash any Shares (excluding the circumstances as described under sub-paragraphs (d) and (e)) at a price per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by the following fraction:

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

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate amount payable for the issue would purchase at such market price; and

C = the number of Shares so issued.

Such adjustment shall become effective on the date of the issue.

LETTER FROM THE BOARD

- (g) if and whenever the Company shall issue Shares for the acquisition of assets at a Total Effective Consideration (as defined below) which is less than 80% of the market price (as defined below) at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted in such manner as may be determined by an approved investment bank. Such adjustment shall become effective on the date of issue. For the purpose of this subparagraph (g) “**Total Effective Consideration**” shall be the aggregate consideration credited as being paid for such Share by the Company on acquisition of the relevant asset without any deduction of any commission, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “**Total Effective Consideration per Share**” shall be the Total Effective Consideration divided by the number of Shares issued as aforesaid.
- (h) if and whenever the Company shall make any capital distribution to the Shareholders (whether on a reduction of capital or otherwise), the Conversion Price in force immediately prior to such distribution shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price on the date on which the capital distribution is publicly announced or (failing any such announcement) the date immediately preceding the date of the capital distribution; and

F = the fair market value on the day of such announcement or (as the case may require) the immediately preceding day, as determined in good faith by an approved investment bank of the capital distribution which is attributable to one Share.

LETTER FROM THE BOARD

Provided that:

- (i) if in the opinion of the relevant approved investment bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the amount of the said market price which should properly be attributed to the value of the capital distribution; and
- (ii) the provisions of this sub-paragraph (h) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the capital distribution.

Ranking:

The Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with all other existing Shares in issue on the date of the conversion notice and shall be entitled to all dividends, other distributions, interests and entitlements.

Transferability:

Subject to the compliance with the GEM Listing Rules and other applicable laws and regulations, the 2023 Convertible Bonds may be transferred or assigned by the holder(s) of the 2023 Convertible Bonds in whole or in part in multiples of HK\$1,000,000 to any party provided that no transfer or assignment of the 2023 Convertible Bonds shall be made to any connected person of the Company (save and except for the associates of the holder(s) of the 2023 Convertible Bonds) without the prior consent of the Company.

Redemption:

Unless previously converted, the Company shall pay 105% of the outstanding principal amount under the 2023 Convertible Bonds to the holder(s) of the 2023 Convertible Bonds on the maturity date of the 2023 Convertible Bonds.

LETTER FROM THE BOARD

- Early redemption: The Company or any of its subsidiaries may at any time prior to the maturity date redeem the 2023 Convertible Bonds at any price as mutually agreed between the Company or its relevant subsidiary and the holder(s) of the 2023 Convertible Bonds. The 2023 Convertible Bonds redeemed will be cancelled forthwith.
- Event of default: Customary events of default
- Upon the occurrence of an event of default, subject to a special resolution passed by a majority of not less than three-fourths of votes cast by the holder(s) of the 2023 Convertible Bonds at a meeting of the holder(s) of the 2023 Convertible Bonds or a written resolution signed by the holder(s) of the 2023 Convertible Bonds which amounted to three-fourths of the then outstanding principal amounts of the 2023 Convertible Bonds, the 2023 Convertible Bonds shall become immediately repayable at a redemption premium calculated with reference to an annual rate of return of 6%.
- Interest shall be chargeable on any amount outstanding from the 2023 Convertible Bonds from the date of the event of default until the actual date of payment.
- Voting rights: The 2023 Convertible Bonds shall not carry any voting rights.
- Listing: No application will be made by the Company for the listing of the 2023 Convertible Bonds on the Stock Exchange. Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

LETTER FROM THE BOARD

Save as disclosed below, there is no other major changes in the terms of the 2015 Convertible Bonds as compared to the 2023 Convertible Bonds:

- (i) the maturity date of the 2015 Convertible Bonds shall be 5 February 2023 and the maturity date of the 2023 Convertible Bonds shall be 5 August 2024;
- (ii) the initial conversion price of the 2015 Convertible Bonds was HK\$0.35 per conversion share which has been adjusted to the current conversion price of HK\$1.75 per conversion share, and the initial Conversion Price of the 2023 Convertible Bonds shall be HK\$0.05 per Conversion Share; and
- (iii) the conversion period for the 2015 Convertible Bonds shall end on the seventh day prior to the maturity date of the 2015 Convertible Bonds, and the conversion period for the 2023 Convertible Bonds shall end on the seventh day prior to the maturity date of the 2023 Convertible Bonds.

On the assumption that the 2023 Convertible Bonds would be converted into Conversion Shares in full at the initial Conversion Price, 3,708,000,000 Conversion Shares will be issued, representing (1) approximately 366.47% of the existing issued share capital of the Company, (2) approximately 78.56% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares upon full conversion of the 2023 Convertible Bonds (assuming that no Conversion Shares to be allotted and issued under the 2022 Convertible Bonds), and (3) approximately 55.21% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares upon full conversion of the 2022 Convertible Bonds and the 2023 Convertible Bonds.

(C) Conversion Price

The initial Conversion Price of HK\$0.05 per Conversion Share represents:

- (i) a premium of approximately 61.29% over the closing price of HK\$0.031 per Share as quoted on the Stock Exchange on 4 April 2022, being the date of the Subscription Agreements;
- (ii) a premium of approximately 60.26% over the average of the closing prices of HK\$0.0312 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including 4 April 2022, being the date of the Subscription Agreements;

LETTER FROM THE BOARD

- (iii) a premium of approximately 59.24% to the average closing prices of HK\$0.0314 per Share for the thirty (30) consecutive trading days up to and including the date of the Subscription Agreements;
- (iv) a premium of approximately 16.28% over the closing price of HK\$0.043 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 32.43% to the net asset value of approximately HK\$0.074 per Share based on the audited consolidated net asset value attributable to owners of the Company of approximately HK\$75,002,000 as at 31 December 2021 and 1,011,829,233 Shares in issue.

The Conversion Price was arrived at after arm's length negotiations between the Company and the Subscribers, taking into account of, among others, the recent trading performance of the Shares including the closing price of the Shares as at the date of the Subscription Agreements, the averages of the closing prices of the Shares for the five consecutive trading days up to and including the date of the Subscription Agreements and the average of the closing prices of the Shares for the thirty consecutive trading days up to and including the date of the Subscription Agreements. Although the Conversion Price represents a discount of approximately 32.43% to the net asset value of approximately HK\$0.074 per Share attributable to owners of the Company as at 31 December 2021, having considered that it represents a premium of approximately 16.28% to 61.29% over the above-mentioned closing price or average closing prices and the Share had been consistently traded at discount to the net asset value per share since early January 2022, as such, the Directors consider that the Conversion Price and the terms and conditions of the Subscription Agreements as well as the Convertible Bonds are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(D) Mandate to issue the Conversion Shares

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

(E) Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. No application will be made for listing of, or permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE PROPOSED ISSUE OF THE CONVERTIBLE BONDS

The Company is an investment holding company. The Group is principally engaged in short-term financing services in the PRC and Hong Kong.

The 2014 Convertible Bonds and the 2015 Convertible Bonds (collectively, the “**Existing CBs**”) would mature in June 2022 and February 2023 respectively and it is not expected that the Company would have sufficient internal resources to redeem all the Existing CBs upon maturity given that the aggregate outstanding principal amount of the Existing CBs is HK\$285,240,000 and the cash and cash equivalents of the Group amounted to only HK\$95,905,000 as at 31 December 2021. The 2022 Convertible Bonds and the 2023 Convertible Bonds are unsecured and non-interest bearing with the initial conversion price representing a substantial premium over the closing price of the Shares as at the date of the Subscription Agreements. It is unlikely for the Company being able to obtain other debt financing from financial institutions or otherwise with acceptable terms or terms better than those 2022 Convertible Bonds and the 2023 Convertible Bonds taking into account of their unsecured and non-interest bearing nature in view of (i) the outstanding principal amount of the 2014 Convertible Bonds and the 2015 Convertible Bonds of HK\$285.24 million; (ii) the loss-making financial performance of the Group; (iii) the lack of collateral acceptable to the banks; (iv) the nature of the Group’s principal business — provision of short-term financing services, which would require certain level of working capital; and (v) the absence of positive feedback from financial institutions for further debt financing. It is also extremely unlikely for the Company to obtain any equity financing with such huge premium over the market price of the Shares. Taking into account the financial position of the Group and given the size of the outstanding principal amounts of the Existing CBs and the terms of the 2022 Convertible Bonds and the 2023 Convertible Bonds, the Directors consider that it is impracticable to secure third party financing on the terms that are favourable to the Company to settle them when they fall due.

In light of the current market circumstances, the holders of the Existing CBs have no intention to exercise the conversion rights attached to the Existing CBs taking into account of that the prevailing conversion price of the Existing CBs per Share is significantly higher than the current market price per Share. The Convertible Bonds bear similar salient features as the Existing CBs such as conversion restriction and essentially is an extension of the Existing CBs, except that the conversion price is adjusted to reflect the prevailing market price of the Shares which provides the Subscribers a better opportunity to convert the Convertible Bonds before the respective maturity date.

As such the Company considers that the entering into of the Subscription Agreements would be an effective way to settle the Existing CBs and the lower Conversion Price would be an incentive for the Subscribers to convert the Convertible Bonds into Shares.

LETTER FROM THE BOARD

As the consideration payable by the Subscribers under the Subscription Agreements will be satisfied by setting off the aggregate outstanding principal amounts of the Existing CBs, there will be no proceeds arising from the issue of the Convertible Bonds. The Directors are of the view that the entering into of the Subscription Agreements in effect enables the Company to relieve the impact on the Company's cash flow position from the Existing CBs upon respective maturity date and retain its internal funds for general working capital and to finance any potential investments opportunities as and when such opportunities arise.

Based on the above, the Directors (including the independent non-executive Directors) consider that the Subscription Agreements are entered into upon normal commercial terms following arm's length negotiations between the Company and the Subscribers and that the terms and conditions of the Subscription Agreements are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

On the assumption that there is no other change in the shareholding structure, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after full conversion of the 2022 Convertible Bonds (assuming no conversion of the 2023 Convertible Bonds); (iii) immediately after full conversion of the 2023 Convertible Bonds (assuming no conversion of the 2022 Convertible Bonds); and (iv) immediately after full conversion of the 2022 Convertible Bonds and the 2023 Convertible Bonds:

	(i) As at the Latest Practicable Date		(ii) immediately after full conversion of the 2022 Convertible Bonds (assuming no conversion of the 2023 Convertible Bonds)		(iii) immediately after full conversion of the 2023 Convertible Bonds (assuming no conversion of the 2022 Convertible Bonds)		(iv) immediately after full conversion of the 2022 Convertible Bonds and the 2023 Convertible Bonds	
			Number of		Number of		Number of	
	Shares	%	Shares	%	Shares	%	Shares	%
Mr. Zhang Wei (Note 1)	127,377,920	12.59	127,377,920	4.23	127,377,920	2.70	127,377,920	1.90
Ms. Li Wei (Note 1)	72,652,800	7.18	72,652,800	2.42	72,652,800	1.54	72,652,800	1.08
Exuberant Global (Note 2)	—	—	—	—	3,580,000,000	75.85	3,580,000,000	53.30
Bustling Capital (Note 3)	10,000,000	0.99	1,806,800,000	60.05	10,000,000	0.21	1,806,800,000	26.90
Ms. Yip Sze Pui Fione and Mr. Hui Kwan Wah Hugo	155,330,000	15.35	155,330,000	5.16	155,330,000	3.29	155,330,000	2.31

LETTER FROM THE BOARD

	(i) As at the Latest Practicable Date		(ii) immediately after full conversion of the 2022 Convertible Bonds (assuming no conversion of the 2023 Convertible Bonds)		(iii) immediately after full conversion of the 2023 Convertible Bonds (assuming no conversion of the 2022 Convertible Bonds)		(iv) immediately after full conversion of the 2022 Convertible Bonds and the 2023 Convertible Bonds	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
<i>Public Shareholders</i>								
Choice Magic	—	—	200,000,000	6.65	—	—	200,000,000	2.98
Mr. Liu	—	—	—	—	128,000,000	2.71	128,000,000	1.90
Other public Shareholders	646,468,513	63.89	646,468,513	21.49	646,468,513	13.70	646,468,513	9.63
Subtotal of public Shareholders	646,468,513	63.89	846,468,513	28.14	774,468,513	16.41	974,468,513	14.51
Total	1,011,829,233	100.00	3,008,629,233	100.00	4,719,829,233	100.00	6,716,629,233	100.00

Note 1: Mr. Zhang Wei and Ms. Li Wei are executive Directors.

Note 2: Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the Shares held by Exuberant Global. Mr. Dai Di is the brother of Mr. Dai Hao.

Note 3: Bustling Capital is wholly and beneficially owned by Ms. Jin Yu, the spouse of Mr. Dai Hao. Accordingly, Ms. Jin Yu is deemed to be interested in the Shares held by Bustling Capital.

Note 4: In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in the Shares held by Bustling Capital. Mr. Dai Di, Mr. Dai Hao and Ms. Jin Yu is classified as the “*Dai Family*”.

Note 5: These scenarios are for illustrative purpose only. Pursuant to the terms of the Convertible Bonds, the holder(s) of the Convertible Bonds shall not have the right to convert the Convertible Bonds to the extent that immediately after such conversion (i) there will not be sufficient public float of the Shares as required under the GEM Listing Rules; or (ii) the holder(s) of the Convertible Bonds together with parties acting in concert with it will, in aggregate, control or be interested in 30% or such percentage of the voting rights of the Company which the holder(s) of the Convertible Bonds would be obliged to make a general offer under the Takeovers Code.

Note 6: Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

LETTER FROM THE BOARD

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

Save as disclosed below, the Company had not conducted any fund raising activities involving issue of its securities in the past twelve months immediately preceding the date of this circular.

Date of announcement	Event	Net proceeds and intended use of proceeds	Actual use of net proceeds
1 December 2021	Placing of 168,000,000 placing shares at the placing price of HK\$0.155 per placing share	Approximately HK\$25.2 million for settlement of outstanding short-term liabilities of the Company and general working capital of the Group.	Fully utilised as intended

GEM LISTING RULES IMPLICATIONS

Under the current practice, foreign investors are not allowed to invest by means of equity investment in any pawn loan companies in the PRC or micro-financing companies in Beijing, as such the Company's indirect wholly-owned subsidiary, 北京萬馳科技有限公司 (Beijing Wanchi Technology Company Limited*, "**Beijing Wanchi**"), has entered into a series of structured agreements (the "**Structured Agreements**") with certain PRC entities (the "**PRC Pawnbroker Entities**") and their respective legal owners such that those PRC Pawnbroker Entities will be classified as subsidiaries of the Group under the relevant accounting standards.

The registered shareholders of those PRC Pawnbroker Entities are 中金福(北京)投資管理有限責任公司 (Zhong Jinfu (Beijing) Investment Management Company Limited*), a company established in the PRC with limited liability ("**ZJF Investment**") and 雲水月投資管理(北京)有限公司 (Yun Shui Yue Investment Management (Beijing) Company Limited*), a company established in the PRC with limited liability ("**YSY Investment**") respectively. ZJF Investment and YSY Investment are owned or controlled by the Dai Family, which are also the ultimate beneficial owners of Exuberant Global and Bustling Capital. As such, each of Exuberant Global and Bustling Capital would be deemed as a connected person of the Company at its subsidiary level under Chapter 20 of the GEM Listing Rules. The entering into of the Subscription Agreements with Exuberant Global and Bustling Capital will be classified as connected transactions at the

* English name is for identification purpose only.

LETTER FROM THE BOARD

subsidiary level on the part of the Company under Chapter 20 of the GEM Listing Rules and is subject to the announcement, circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Pursuant to FAQ Series 28 issued by the Stock Exchange, transactions or arrangements involving issuance of new shares by a listed issuer to its connected person are exempt from the connected transaction Rules only if they fall under the circumstances described in Rule 20.90 of the GEM Listing Rules. Accordingly, since the Conversion Shares will be allotted and issued under the Specific Mandate to be sought at the SGM, the Subscription Agreements and the transactions contemplated thereunder shall be subject to announcement, circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The subscription monies of the Subscription will be set off against the outstanding principal amounts of the 2014 Convertible Bonds and the 2015 Convertible Bonds (the "**Setting Off**"). The Setting Off is based on the terms of the 2014 Convertible Bonds and the 2015 Convertible Bonds, which allows early repurchase by the Company and is essentially an early redemption of the 2014 Convertible Bonds and the 2015 Convertible Bonds and there is no alternation of the terms to the 2014 Convertible Bonds and/or the 2015 Convertible Bonds except for the new Conversion Price and maturity dates of the Convertible Bonds.

Rule 13.12 of the GEM Listing Rules provides that a GEM issuer may not make a new issue of shares or announce a proposed new issue of shares for a period of 30 days after any purchase by it of shares, whether on the Stock Exchange or otherwise, without the prior approval of the Stock Exchange and shares for such purpose include shares of all classes and securities which carry a right to subscribe or purchase shares, of the issuer. As the Setting Off will occur concurrently upon completion of the issue of the Convertible Bonds, the Company has therefore applied for and has received approval from the Stock Exchange pursuant to Rule 13.12 of the GEM Listing Rules for the issue of the Convertible Bonds to be undertaken concurrently with the Setting Off.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Director has a material interest in the issue of the Convertible Bonds and none of them was required to abstain from voting on the board resolutions approving the Subscription Agreements and the issue of the Convertible Bonds.

SGM

The SGM will be held and convened for the Shareholders to consider, and if thought fit, approve the Increase in Authorised Share Capital and for the Independent Shareholders to consider, and if thought fit, approve the Subscription Agreements and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate).

LETTER FROM THE BOARD

Any Shareholder who is interested in the Subscription shall abstain from voting on the resolution(s) to approve the Subscription Agreements and the transactions contemplated thereunder at the SGM.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, save for Bustling Capital, no Shareholder is interested in the Subscription Agreements and will be required to abstain from voting on the resolution(s) to approve the Subscription Agreements and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, to the best of the Director's knowledge, information and belief after having made all reasonable enquiries, (i) Exuberant Global did not hold any Shares; and (ii) Bustling Capital holds 10,000,000 Shares, representing approximately 0.99% of the issued share capital of the Company; and (iii) Exuberant Global's and Bustling Capital's associates including but not limited to Mr. Dai Di, Ms. Jin Yu and Mr. Dai Hao did not hold any Shares. Bustling Capital, which is wholly and beneficially owned by Ms. Jin Yu, controls the voting rights in respect of 10,000,000 Shares held by it.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have a material interest in the Increase in Authorised Share Capital and no Shareholders is required to abstain from voting at the SGM approving the Increase in Authorised Share Capital.

A notice for convening the SGM to be held at Unit 2613A, 26th Floor, Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong at 3:00 p.m. on Tuesday, 28 June 2022 is set out on pages SGM-1 to SGM-4 of this circular. A form of proxy for the SGM is also enclosed with this circular. Whether or not you intend to be present at the SGM, you are requested to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for the SGM (i.e. Sunday, 26 June 2022 at 3:00 p.m.). The completion of a form of proxy will not preclude you from attending and voting at the SGM in person.

CLOSURE OF REGISTER OF MEMBERS

In order to determine members who are entitled to attend the SGM, the transfer books and register of members will be closed from Thursday, 23 June 2022 to Tuesday, 28 June 2022, both days inclusive, during which period no share transfers can be registered. In order to be eligible to attend and vote at the SGM, all registered holders of shares of the Company should ensure that all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4.30 p.m. on Wednesday, 22 June 2022.

LETTER FROM THE BOARD

RECOMMENDATION

The Board are of the view that the terms of the Subscription Agreements and the transactions contemplated thereunder, which have been agreed after arm's length negotiations are on normal commercial terms and such terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Board also considers that the proposed Increase in Authorised Share Capital is in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolutions for approving the proposed Increase in Authorised Share Capital, the Subscription Agreements and the transactions contemplated thereunder to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter of advice from Giraffe Capital to the Independent Board Committee and the Independent Shareholders, the additional information as set out in the appendix to this circular and the notice of the SGM.

By order of the Board
Capital Finance Holdings Limited
Zhang Wei
Chairman and Executive Director



Capital Finance Holdings Limited

首都金融控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 8239)

13 June 2022

To the Independent Shareholders,

Dear Sir or Madam,

**CONNECTED TRANSACTION
PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE**

We refer to the circular dated 13 June 2022 (the “**Circular**”) issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider and to advise the Independent Shareholders on the terms of the Subscription Agreements and the transactions contemplated thereunder as set out in the Circular as to the fairness and reasonableness and to recommend whether or not the Independent Shareholders should approve the Subscription Agreements and the transactions contemplated thereunder as set out in the Circular. Giraffe Capital has been appointed as the Independent Financial Adviser to provide advice and recommendation to the Independent Board Committee and the Independent Shareholders in this regard. Details of the independent advice of Giraffe Capital, together with the principal factors and reasons Giraffe Capital has taken into consideration, are set out on pages 47 to 103 of the Circular.

We wish to draw your attention to the Letter from the Board and the Letter from Giraffe Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Subscription Agreements and the transactions contemplated thereunder. Your attention is also drawn to the additional information set out in the appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Subscription Agreements and the transactions contemplated thereunder, the advice of Giraffe Capital and the relevant information contained in the Letter from the Board, we consider that although the entering into of the Subscription Agreements is not in the ordinary and usual course of business of the Group, the proposed issue of the Convertible Bonds to the connected persons of the Company at the subsidiary level, the Subscription Agreements and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions for approving the Subscription Agreements and the transactions contemplated thereunder to be proposed at the SGM.

Yours faithfully,

The Independent Board Committee of
Capital Finance Holdings Limited

Mr. Chen Yihua
Independent Non-executive
Director

Mr. Lee Zak Yuen
Independent Non-executive
Director

Mr. Chan Ngai Fan
Independent Non-executive
Director

LETTER FROM GIRAFFE CAPITAL

The following is the full text of the letter received from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.



13 June 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

CONNECTED TRANSACTION PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed issue of the Convertible Bonds to the connected persons of the Company at the subsidiary level, the Subscription Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 13 June 2022 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, on 4 April 2022 (after trading hours), the Company entered into the conditional Subscription Agreements with the respective Subscribers, pursuant to which each of the Subscribers has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Convertible Bonds.

The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the SGM.

LETTER FROM GIRAFFE CAPITAL

As set out in the Letter from the Board, under the current practice, foreign investors are not allowed to invest by means of equity investment in any pawn loan companies in the PRC or micro-financing companies in Beijing, as such the Company's indirect wholly-owned subsidiary, 北京萬馳科技有限公司 (Beijing Wanchi Technology Company Limited*, "**Beijing Wanchi**"), has entered into a series of structured agreements (the "**Structured Agreements**") with certain PRC entities (the "**PRC Pawnbroker Entities**") and their respective legal owners such that those PRC Pawnbroker Entities will be classified as subsidiaries of the Group under the relevant accounting standards. The registered shareholders of those PRC Pawnbroker Entities are 中金福(北京)投資管理有限責任公司 (Zhong Jinfu (Beijing) Investment Management Company Limited*), a company established in the PRC with limited liability ("**ZJF Investment**") and 雲水月投資管理(北京)有限公司 (Yun Shui Yue Investment Management (Beijing) Company Limited*), a company established in the PRC with limited liability ("**YSY Investment**") respectively. ZJF Investment and YSY Investment are owned or controlled by the Dai Family, which are also the ultimate beneficial owners of Exuberant Global and Bustling Capital. As such, each of Exuberant Global and Bustling Capital would be deemed as a connected person of the Company at its subsidiary level under Chapter 20 of the GEM Listing Rules. The entering into of the Subscription Agreements with Exuberant Global and Bustling Capital will be classified as connected transactions at the subsidiary level on the part of the Company under Chapter 20 of the GEM Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, save for Bustling Capital, no Shareholder is interested in the Subscription Agreements and will be required to abstain from voting on the resolution(s) to approve the Subscription Agreements and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, to the best of the Director's knowledge, information and belief after having made all reasonable enquiries, (i) Exuberant Global did not hold any Shares; (ii) Bustling Capital holds 10,000,000 Shares, representing approximately 0.99% of the issued share capital of the Company; and (iii) Exuberant Global's and Bustling Capital's associates including but not limited to Mr. Dai Di, Ms. Jin Yu and Mr. Dai Hao did not hold any Shares. Bustling Capital, which is wholly and beneficially owned by Ms. Jin Yu, controls the voting rights in respect of 10,000,000 Shares held by it.

THE INDEPENDENT BOARD COMMITTEE

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors (namely Mr. Chen Yihua, Mr. Lee Zak Yuen and Mr. Chan Ngai Fan), to advise the Independent Shareholders in respect of the proposed issue of the

* for identification purpose only

LETTER FROM GIRAFFE CAPITAL

Convertible Bonds to the connected persons of the Company at the subsidiary level, the Subscription Agreements and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in respect of the rights issue on the basis of two rights shares for every one existing share held on record date on a non-underwritten basis as detailed in the circular of the Company dated 7 January 2021. Notwithstanding the above engagement, as at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 17.96 of the GEM Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, the Announcement, the supplemental announcement of the Company dated 3 May 2022, the Subscription Agreements, the supplemental agreements dated 6 June 2022 entered into between the Subscribers and the Company, the annual report of the Company for the year ended 31 December 2021 (the “**Annual Report 2021**”), the announcement of the Company dated 10 March 2022 relating to the expected improvement in loss position, the announcement of the Company dated 6 April 2020 on adjustments relating to 2014 Convertible Bonds and 2015 Convertible Bonds (the “**Existing CBs**”), the circular of the Company dated 30 March 2019 on connected transaction in relation to the proposed extension of maturity date of convertible bonds under the specific mandate, the circular of the Company dated 30 May 2014 on the very substantial acquisition in relation to the acquisition of the entire equity interests in and shareholder’s loans to Prima Finance Holdings Limited involving issuing the Existing CBs as partial consideration, and have enquired with and reviewed the information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company. We have also discussed with the management of the Company (the “**Management**”) with respect to the terms of and reasons for the Subscription Agreements, and the business and future outlook of the Group.

LETTER FROM GIRAFFE CAPITAL

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors were true and accurate at the time when they were made and continue to be true up to the date of SGM. We have no reason to believe that any statements, information, opinions and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent verification and in-depth investigation into the information provided by the Company as well as the business and affairs of the Group, the Subscribers or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Subscription Agreements. Our opinion is necessarily based on the market, financial, economic, industry-specific and other conditions in effect and the information made available to us as at the date of SGM. Shareholders should note that subsequent developments (including any change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the date of SGM or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm that to the best of their knowledge and belief, the information contained in the 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 in the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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

LETTER FROM GIRAFFE CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the proposed issue of the Convertible Bonds to the connected persons of the Company at the subsidiary level, the Subscription Agreements and the transactions contemplated thereunder, we have taken into consideration, inter alia, the following principal factors and reasons:

1. Information on the Group

1.1 Business of the Group

As disclosed in the Letter from the Board and the Annual Report 2021, the Group principally engages in short-term financing services in the PRC and Hong Kong. The Group's provision of short-term financing services mainly comprises pawn loan business, micro-financing business, distressed debt asset management business, and financial consultancy business.

According to the Annual Report 2021, the Group acquired 25% equity interest in 宣威瑞草生物科技有限公司 (Xuan Wei Rui Cao Biological Technology Company Limited*), which is principally engaged in the bio-organic fertilizer and biopesticide research and development and plant extract production in the PRC. The related output products include bio-organic fertilizer, biopesticide, biological insecticide and plant extracts etc. The Directors considered that the acquisition would enable the Group to enter green production, technological innovation and agricultural industry in the PRC and help the Group to diversify its income stream and business risks.

* *for identification purpose only*

LETTER FROM GIRAFFE CAPITAL

1.2 Financial performance of the Group

Set out below is a summary of the Group's operating results as extracted from the Annual Report 2021:

	For the year ended	
	31 December	
	2020	2021
	HK\$000	HK\$000
	(audited)	(audited)
Revenue		
— Interest income from loans to customers	38,840	44,531
— Settlement gain from distressed debt assets classified in loans to customers	1,586	114
— Financial consultancy income	1,169	731
	<u>41,595</u>	<u>45,376</u>
Finance costs	(49,125)	(39,565)
Loss before income tax	(77,963)	(8,413)
Loss attributable to owners of the Company	(75,952)	(19,017)

For the years ended 31 December 2020 and 2021, the Group generated revenue from short-term financing services including (i) interest income from loans to customers, (ii) settlement gain from distressed debt assets classified in loans to customers, and (iii) financial consultancy income. Interest income from loans to customers mainly represents the interest income from pawn loans and micro-credit loans. Settlement gain from distressed debt assets classified in loans to customers represents gain from settlement of receivable from obligors of non-performing loans. Financial consultancy income is generated from the provision of customised financial consultancy services. The Group designs financing structures and solutions based on the credit portfolios of its customers, seeks the most optimal source of funding to its customer and matches its customers with the financial institution.

Comparison of financial performance between the years ended 31 December 2020 and 2021

According to the Annual Report 2021, the Group's revenue increased from approximately HK\$41.6 million for the year ended 31 December 2020 ("FY2020") to approximately HK\$45.4 million for the year ended 31 December 2021 ("FY2021"), primarily attributable to the increase in

LETTER FROM GIRAFFE CAPITAL

interest income from short-term financing services during FY2021. As advised by the Management, the increase in interest income from loans to customers was mainly due to the interest income received from a customer relating to a long outstanding loan.

The Group's finance costs decreased from approximately HK\$49.1 million in FY2020 to approximately HK\$39.6 million in FY2021, primarily attributable to partial redemption of convertible bonds and redemption of promissory note made by the Group.

The Group's loss attributable to the owners of the Company decreased from approximately HK\$76.0 million in FY2020 to approximately HK\$19.0 million in FY2021, primarily attributable to (i) the increase in total revenue; (ii) the reversal of loss allowance for expected credit losses ("ECLs") on loans to customers of approximately HK\$25.6 million in FY2021 as compared to the charge of loss allowance for ECLs on loans to customers of approximately HK\$31.5 million in FY2020 mainly due to the improvement on the customers' ageing after the containment of COVID-19 pandemic in the PRC; and (iii) the decrease in finance costs.

1.3 Financial position of the Group

Set out below is a summary of the Group's financial position as extracted from the Annual Report 2021:

	As at 31 December	
	2020	2021
	<i>HK\$000</i>	<i>HK\$000</i>
	(audited)	(audited)
Assets		
— Loans to customers, net	254,062	247,252
— Cash and cash equivalents	139,193	95,905
Liabilities		
— Convertible bonds — liability component	422,921	281,198
Net current assets	398,240	254,744
Total equity	26,019	117,864
Gearing ratio (<i>Note</i>)	-20.4 times	3.7 times

Note:

The gearing ratio is calculated by dividing the total debts by the shareholder's equity as at the end of respective year.

LETTER FROM GIRAFFE CAPITAL

Loans to customers, net

The loans to customers were arising from the Group's pawn loans, micro-credit loans, entrusted loans and distressed debt assets. The Group's balance of loans to customers remained relatively stable at approximately HK\$254.1 million and HK\$247.3 million as at 31 December 2020 and 2021, respectively. Among the gross loans to customers before loss allowance for ECLs, approximately 43.3% and 38.3% of the balances were overdue more than 90 days as at 31 December 2020 and 2021, respectively. As at 31 December 2020 and 2021, approximately 92.0% and 95.0% of the Group's total gross loans to customers were from pawn loans and micro-credit loans. For the pawn loans to customers, the customers are obliged to settle the amounts according to the terms set out in the relevant contracts, and the Group has a sole discretion to approve the renewal of loan for a period of up to 180 days. As at 31 December 2020 and 2021, pawn loans advanced to customers bore interest at fixed rates ranging from 0.1% per month to 0.3% per month and are all collaterals-backed. For micro-credit loans to customers, the loan periods generally range from 120 to 365 days, and the Group has a sole discretion to approve the renewal of loan for another certain period, usually within one year. As at 31 December 2020 and 2021, micro-credit loans advanced to customers bore interest at fixed rates ranging from 1.3% per month to 2.0% per month. Micro-credit loans to customers are backed either by real estate collaterals or by personal/corporate guarantees.

Cash and cash equivalents

The Group recorded a decreasing balance of cash and cash equivalents of approximately HK\$139.2 million and HK\$95.9 million as at 31 December 2020 and 2021, respectively, mainly attributable to the partial redemption of convertible bonds. According to the Letter from the Board, the Directors are of the view that the entering into of the Subscription Agreements in effect enables the Company to relieve the impact on the Company's cash flow position from the Existing CBs upon respective maturity date and retain its internal funds for general working capital and to finance any potential investments opportunities as and when such opportunities arise.

Convertible bonds — liability component

The Group's liabilities mainly comprised the convertible bonds. The Group recorded outstanding convertible bonds as liability component of approximately HK\$422.9 million and HK\$281.2 million as at 31 December 2020 and 2021, respectively. According to the Annual Report 2021, the Company has entered redemption agreements with several holders of the convertible bonds for early redemption of the zero-coupon convertible bonds with aggregate principal amount of approximately HK\$188.5 million by cash settlement of approximately HK\$180.8 million in FY2021. According to the Letter from the Board, as at the Latest Practicable Date, the Company

LETTER FROM GIRAFFE CAPITAL

has outstanding convertible bonds with principal amount, in aggregate, of HK\$285.24 million, which will be set off against the subscription amount of HK\$99.84 million for the 2022 Convertible Bonds and HK\$185.40 million for the 2023 Convertible Bonds.

Net current assets

The Group's net current assets decreased from approximately HK\$398.2 million as at 31 December 2020 to approximately HK\$254.7 million as at 31 December 2021, mainly attributable to (i) the decrease in cash and cash equivalents, (ii) the decrease in financial assets at fair value through profit or loss, (iii) the decrease in loans to customers, and (iv) the reclassification of the current portion of convertible bonds — liability component from non-current liabilities as at 31 December 2021.

Gearing ratio

Calculated based on the total debts over shareholder's equity, the Group recorded a negative gearing ratio as at 31 December 2020, which indicated that the Group was in a net liability position where the total assets attributable to owners being insufficient to cover the respective total liabilities. The Group's gearing ratio increased from approximately -20.4 as at 31 December 2020 to approximately 3.7 as at 31 December 2021 as the Group recorded a turnaround from net liability position to net asset position as at 31 December 2021, mainly attributable to the increase in the Group's equity attributable to owners of the Company as a result of the issue of new Shares upon the completion of rights issue and placing in FY2021. The Group recorded equity attributable to owners of the Company of approximately HK\$75.0 million as at 31 December 2021 while negative equity attributable to owners of the Company of approximately HK\$21.0 million as at 31 December 2020 mainly due to accumulated losses.

In view of the historical financial information and financial position of the Group, in particular, (i) the Group has recorded losses for each of the years ended 31 December 2020 and 2021, (ii) there was a drop in cash and cash equivalents and net current assets from 2020 to 2021, and (iii) the outstanding principal amount of the Existing CBs is large compared with the cash position of the Group, there would be an imminent need to alleviate the capital needs to repay the Existing CBs when they fall due and at the same time to allow the Group to retain liquidity and financial flexibility to develop its business.

1.4 Business outlook

According to *China Monetary Policy Report Q4 2021* published in February 2022 by Monetary Policy Analysis Group of the People's Bank of China ("PBC"), through the PBC's forward guidance, financial institutions enhanced the stability of credit growth, coordinated

LETTER FROM GIRAFFE CAPITAL

cross-year credit policies, and consolidated financial support for the real economy in the second half of 2021. Thus, RMB loans achieved a stronger year-on-year increase in 2021. At the end of 2021, outstanding loans issued by financial institutions in domestic and foreign currencies increased by approximately 11.3% to approximately RMB198.5 trillion from approximately RMB178.4 trillion at the beginning of 2021. Outstanding RMB-denominated loans increased by approximately 11.6% to approximately RMB192.7 trillion from approximately RMB172.7 trillion at the beginning of 2021. At the same time, new RMB loans made by Chinese-funded large-sized banks, Chinese-funded small and medium-sized banks, small-sized rural financial institutions, and foreign-funded financial institutions increased from approximately RMB19.64 trillion in 2020 to approximately RMB19.95 trillion in 2021.

According to the Notice on Strengthening the Supervision of Pawn Shops* (《關於加強典當行監督管理的通知》) and the Notice on Strengthening the Supervision of Micro-credit Companies* (《關於加強小額貸款公司監督管理的通知》) published by China Banking and Insurance Regulatory Commission in May and September 2020 respectively, tighter rules have been introduced for short-term financing service companies in the PRC to provide better financial services for individuals, micro, small and medium-sized enterprises by mitigating the financial and economic risk.

As discussed with the Management, the tightened rules may cause difficulties on the Group's money lending business as the tightened rules imposed limitations on the flexibility on, among others, (i) interest rates to be charged on loans; and (ii) the size of individual loans, which may in turns affect the profitability of the Group.

2. Reasons for and benefits of the Subscription

2.1 Imminent needs to alleviate the capital needs to repay the Existing CBs

According to the Annual Report 2021, we noted that the cash and cash equivalent of the Group decreased from approximately HK\$139.2 million as at 31 December 2020 to approximately HK\$95.9 million as at 31 December 2021. The current balance of cash and cash equivalents is insufficient to fully settle the aggregate outstanding amount of HK\$285.24 million for the Existing CBs. Besides, the administrative and other expenses of the Group amounted to approximately HK\$38.5 million for the year ended 31 December 2021, which represented an average monthly administrative and other expenses of approximately HK\$3.2 million. Given the above and the nature of the principal business of the Group, it is understood from the Management that the Group need to maintain sufficient working capital to maintain its daily operation, which mainly cover staff costs, rental expenses, and other legal or professional expenses, and also to capture

* for identification purpose only

LETTER FROM GIRAFFE CAPITAL

business opportunities in its short-term financing services. As stated in the Letter from the Board, the Existing CBs would mature in June 2022 and February 2023 respectively and it is not expected that the Company would have sufficient internal resources to redeem all the Existing CBs upon maturity. Since the subscription monies of the Subscription will be set off against the outstanding principal amounts of the Existing CBs, the Directors are of the view that the entering into of the Subscription Agreements in effect enables the Company to relieve the impact on the Company's cash flow position from the Existing CBs upon respective maturity date and retain its internal funds for general working capital and to finance any potential investments opportunities as and when such opportunities arise.

Based on the aforesaid, in particular, considering the financial position of the Group and its working capital requirements, we concurred with the Management that there is a need for the Company to issue the Convertible Bonds to settle the respective outstanding principal amount of the Existing CBs, which will relieve the impact on the Group's cash flow at the respective maturity date and the proposed issue of Convertible Bond is beneficial to the Group to retain sufficient level of liquidity and financial flexibility for future business development.

2.2 Alternative sources of financing

As stated in the Letter from the Board, taking into account the financial position of the Group and given the size of the outstanding principal amounts of the Existing CBs and the terms of the Convertible Bonds, the Management consider that it is unlikely to secure third party financing on the terms that are favourable to the Company to settle the outstanding principal amounts of the Existing CBs when they fall due. As discussed with the Management, other than the Subscription, the Company has considered other alternative means of fund raising, such as borrowing from financial institutions, placing of new Shares, rights issue, and open offer as detailed below:

Borrowing from financial institutions

As advised by the Management, in respect of borrowing from financial institutions, in view of (i) the outstanding principal amount of the Existing CBs of HK\$285.24 million; (ii) the loss-making financial performance of the Group; (iii) the lack of collateral acceptable to the banks, (iv) the nature of the Group's principal business — provision of short-term financing services, which would require certain level of working capital; and (v) the absence of positive feedback from financial institutions for further debt financing, the Management considered that it would be unlikely for the Company to obtain financing from financial institutions to settle the outstanding principal amounts of the Existing CBs at terms acceptable to the Company.

LETTER FROM GIRAFFE CAPITAL

We have reviewed the Annual Report 2021 and noted that (i) the Group had been loss making in the past five years; (ii) the Company did not have material tangible asset which may be used as collaterals for borrowing; and (iii) the Group's gearing ratio was at a high level of 3.7 times as at 31 December 2021.

In light of the above, we concur with the Management that it will be unlikely for the Company to obtain financing from financial institutions to settle the outstanding principal amounts of the Existing CBs at terms acceptable to the Company.

Placing of new Shares

The 2014 Convertible Bonds will be due on 24 June 2022 and the outstanding principal amount is too large to be settled by placing of new Shares under the general mandate. The Company would then have to seek a specific mandate from the Shareholders for the placing of new Shares at a special general meeting. Taking into account (i) the market capitalisation of the Company of merely around HK\$31 million as at the date of the Subscription Agreements, it is contemplated that there will be substantial dilution to the existing shareholdings in the event that the Company would raise the same amount of net proceeds, being the outstanding principal amount of the Existing CBs of HK\$285.24 million, by way of placing of new Shares; (ii) the historical trading volume of the Group, as discussed in sub-section headed "6.3 Historical trading volume of the Shares", the Shares were generally illiquid in the open market, with minimal average daily trading volume during most of the time of the Review Period (as defined below); (iii) the downward trend in the share price of the Company, and (iv) the recent deteriorating market sentiment caused by the impacts of the COVID-19 pandemic and macroeconomic situations, we are of the view that it would be difficult for the Company to negotiate with placing agent with acceptable terms to seek independent third parties to subscribe for new Shares without a large discount as compared with the Subscription Price.

Rights issue and open offer

As advised by the Management, besides the possibility of conducting private placement as discussed above, they have also considered the feasibility of conducting rights issue and open offer. However, considering that (i) rights issue or open offer may involve existing Shareholders increasing their investment in the Company or otherwise being diluted, which may not be their intention given the financial performance of the Group; (ii) rights issue or open offer may involve additional costs and works including identifying underwriter(s) with favorable terms, and preparing and despatch of prospectus involving unaudited *pro forma* financial information; (iii) the current market capitalisation of the Company was far smaller than the size of the outstanding principal amount of the Existing CBs, and (iv) in order to raise the same amount of net proceeds to repay the outstanding principal amount of the Existing CBs, the rights issue or open offer would require

LETTER FROM GIRAFFE CAPITAL

the Company to either issue new Shares for subscription at premium of the market price of Shares or issue a substantial amount of new Shares which would result in huge dilution effect on the shareholding of non-participating Shareholders, while it is also not likely for the Company and the underwriters to perform rights issue or open offer with the subscription price at premium over share price, we concur with the Management that it is unlikely for the Company to repay the outstanding principal amount of the Existing CBs by way of rights issue or open offer.

Taking into account of the above factors, we concur with the Management that the issue of the Convertible Bonds is preferable than other equity and debt financing methods as discussed above.

2.3 Other benefits of issuing Convertible Bonds

According to the Letter from the Board, in light of the current market circumstances, the holders of the Existing CBs have no intention of exercising the conversion rights attached to the Existing CBs taking into account of that the prevailing conversion price of the Existing CBs per Share is significantly higher than the current market price per Share. According to the Annual Report 2021, the prevailing conversion price of the Existing CBs was HK\$1.75 per Share (adjusted from HK\$0.35 per ordinary share to HK\$1.75 per ordinary share after taking into account the effect of the share consolidation with effective on 8 April 2020 as detailed in the circular of the Company dated 28 February 2020) while the closing price as at 4 April 2022, being the date of the Subscription Agreements, was HK\$0.031 per Share, representing a deep discount of approximately 98% to the prevailing conversion price. It is unlikely for the holders of the Existing CBs to exercise the conversion rights attached.

According to the Letter from the Board, the Convertible Bonds bear similar salient features to the Existing CBs such as conversion restriction and essentially is an extension of the Existing CBs, except that the conversion price is adjusted to reflect the prevailing market price of the Shares which provides the Subscribers a better opportunity to convert the Convertible Bonds before the respective maturity date. As such the Company considers that the entering into of the Subscription Agreements would be an effective way to settle the Existing CBs and the lower Conversion Price would be an incentive for the Subscribers to convert the Convertible Bonds into Shares.

Having considered (i) the issue of Convertible Bonds would enable the Company to relieve the impact on the Company's cash flow position from the Existing CBs upon respective maturity date given the insufficient cash and cash equivalent balance of the Group; (ii) the impracticality and unfavourable effects brought by the alternative source of financing; and (iii) the benefits of issuing Convertible Bonds, we concur with the Management that the entering into of the Subscription Agreements is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM GIRAFFE CAPITAL

3. Information of the Subscribers

According to the Letter from the Board, as at the Latest Practicable Date, the 2014 Convertible Bonds in the aggregate principal amount of HK\$99,840,000 remain outstanding as follows:

- (i) Bustling Capital holds a 2014 Convertible Bond in the outstanding principal amount of HK\$89,840,000 maturing on 24 June 2022; and
- (ii) Choice Magic holds a 2014 Convertible Bond in the outstanding principal amount of HK\$10,000,000 maturing on 24 June 2022.

As at the Latest Practicable Date, the 2015 Convertible Bonds in the aggregate principal amount of HK\$185,400,000 remain outstanding as follows:

- (i) Exuberant Global holds a 2015 Convertible Bond in the outstanding principal amount of HK\$179,000,000 maturing on 5 February 2023; and
- (ii) Mr. Liu holds a 2015 Convertible Bond in the outstanding principal amount of HK\$6,400,000 maturing on 5 February 2023.

The Company does not intend to exercise the early redemption rights in relation to the outstanding Existing CBs before completion of the Subscription Agreements, and it is expected that the outstanding principal amount of the 2014 Convertible Bonds will not change before completion of the 2022 CB Subscription Agreements and the outstanding principal amount of the 2015 Convertible Bonds will not change before completion of the 2023 CB Subscription Agreements.

4. Principal terms of the Subscription Agreements

Set out below are the principal terms and conditions of the Subscription Agreements. For details of the terms of the Subscription Agreements, please refer to section headed “The Subscription Agreements” in the Letter from the Board.

On 4 April 2022 (after trading hours), the Company entered into the conditional Subscription Agreements with the Subscribers respectively, pursuant to which each of the Subscribers has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Convertible Bonds.

LETTER FROM GIRAFFE CAPITAL

4.1 2022 CB Subscription Agreements

Date: 4 April 2022 (as amended and supplemented on 6 June 2022)

Parties: (i) the Company as issuer; and
(ii) Bustling Capital and Choice Magic as the 2022 CB Subscribers.

Subject to fulfilment of the conditions precedent to the 2022 CB Subscription Agreements below, the 2022 CB Subscribers shall subscribe for the 2022 Convertible Bonds in aggregate principal amount of HK\$99,840,000 (as to HK\$89,840,000 and HK\$10,000,000 to Bustling Capital and Choice Magic respectively) under the respective 2022 CB Subscription Agreements and the said amounts shall be satisfied by setting off the respective outstanding principal amounts of the 2014 Convertible Bonds held by the relevant Subscribers respectively which shall fall due on 24 June 2022. The Setting Off (as defined below) is based on the terms of the 2014 Convertible Bonds, which allow early repurchase by the Company and are essentially an early redemption of the 2014 Convertible Bonds and there is no alternation of the terms of the 2014 Convertible Bonds.

Upon completion of the 2022 CB Subscription Agreements, all the outstanding 2014 Convertible Bonds shall be cancelled.

Save for the identity of the Subscribers and the amount of 2022 Convertibles Bonds to be subscribed, the substantial part of the salient terms of each of 2022 CB Subscription Agreements are identical.

Conditions precedent to the 2022 CB Subscription

The 2022 CB Subscription is conditional upon:

- (i) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares;
- (ii) the Company having obtained all the required consents and approvals in respect of the 2022 CB Subscription Agreements and the transactions contemplated thereunder;
- (iii) the relevant Subscribers having obtained all the required consents and approvals in respect of the 2022 CB Subscription Agreements and the transactions contemplated thereunder;

LETTER FROM GIRAFFE CAPITAL

- (iv) the passing of the relevant resolution(s) by the Shareholders in SGM (other than those who are required to abstain from voting or to vote in favour of the relevant resolution(s) as required by the GEM Listing Rules) in respect of, among other things, to approve the 2022 CB Subscription Agreements and the transactions contemplated thereunder, if applicable; and
- (v) the Increase in Authorised Share Capital becoming effective.

As at the Latest Practicable Date, condition (iii) above has been fulfilled.

In the event that the conditions of the Subscription are not fulfilled on or before 30 June 2022 (the “**Long Stop Date**”) or such other date as may be agreed between the parties to the 2022 CB Subscription Agreements, the 2022 CB Subscription Agreements shall cease and terminate and neither the Company nor the 2022 CB Subscribers shall have any obligations and liabilities under the 2022 CB Subscription Agreements.

The 2022 CB Subscribers have expressed that, in the event completion of the 2022 CB Subscription Agreements cannot be completed by 24 June 2022, each of them is willing to (a) grant forbearance to allow the Company to postpone repayment of the 2014 Convertible Bonds from the original repayment date of 24 June 2022 to until the 2022 CB Subscription Agreements are completed or 31 August 2022, whichever is the earlier. ; and (b) extend the Long Stop Date to 31 August 2022 if the conditions of the Subscription are not fulfilled by 30 June 2022.

For the avoidance of doubt, the 2022 CB Subscription Agreements are not inter-conditional upon each other and are not inter-conditional upon the 2023 CB Subscription Agreements.

Completion

Completion will take place within the third business day after the conditions of the 2022 CB Subscription are fulfilled (or such other date as may be agreed between the respective parties).

LETTER FROM GIRAFFE CAPITAL

4.2 2023 CB Subscription Agreements

Date: 4 April 2022 (as amended and supplemented on 6 June 2022)

Parties: (i) the Company as issuer; and
(ii) Exuberant Global and Mr. Liu as the 2023 CB Subscribers.

Subject to fulfilment of the conditions precedent to the 2023 CB Subscription Agreements below, the 2023 CB Subscribers shall subscribe for the 2023 Convertible Bonds in aggregate principal amount of HK\$185,400,000 (as to HK\$179,000,000 and HK\$6,400,000 to Exuberant Global and Mr. Liu respectively) under the respective 2023 CB Subscription Agreements and the said amounts shall be satisfied by setting off the respective outstanding principal amounts of the 2015 Convertible Bonds held by the relevant Subscribers respectively which shall fall due on 5 February 2023. The Setting Off (as defined below) is based on the terms of the 2015 Convertible Bonds, which allow early repurchase by the Company and are essentially an early redemption of the 2015 Convertible Bonds and there is no alternation of the terms of the 2015 Convertible Bonds.

Upon completion of the 2023 CB Subscription Agreements, all the outstanding 2015 Convertible Bonds shall be cancelled.

Save for the identity of the Subscribers and the amount of 2023 Convertibles Bonds to be subscribed, the substantial part of the salient terms of each of 2023 CB Subscription Agreements are identical.

Conditions precedent to the 2023 CB Subscription

The 2023 CB Subscription is conditional upon:

- (i) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares;
- (ii) the Company having obtained all the required consents and approvals in respect of the 2023 CB Subscription Agreements and the transactions contemplated thereunder;
- (iii) the relevant Subscribers having obtained all the required consents and approvals in respect of the 2023 CB Subscription Agreements and the transactions contemplated thereunder;

LETTER FROM GIRAFFE CAPITAL

- (iv) the passing of the relevant resolution(s) by the Shareholders in SGM (other than those who are required to abstain from voting or to vote in favour of the relevant resolution(s) as required by the GEM Listing Rules) in respect of, among other things, to approve the 2023 CB Subscription Agreements and the transactions contemplated thereunder, if applicable; and
- (v) the Increase in Authorised Share Capital becoming effective.

As at the Latest Practicable Date, condition (iii) above has been fulfilled.

In the event that the conditions of the Subscription are not fulfilled on or before 30 June 2022 or such other date as may be agreed between the parties to the 2023 CB Subscription Agreements, the 2023 CB Subscription Agreements shall cease and terminate and neither the Company nor the 2023 CB Subscribers shall have any obligations and liabilities under the 2023 CB Subscription Agreements.

For the avoidance of doubt, the 2023 CB Subscription Agreements are not inter-conditional upon each other and are not inter-conditional upon the 2022 CB Subscription Agreements.

Completion

Completion will take place within the third business day after the conditions of the 2023 CB Subscription are fulfilled (or such other date as may be agreed between the respective parties).

According to the Letter from the Board, the subscription monies of the Subscription will be set off against the outstanding principal amounts of the Existing CBs (the “**Setting Off**”). The Setting Off is based on the terms of the Existing CBs, which allows early repurchase by the Company and is essentially an early redemption of the Existing CBs and there is no alternation of the terms to the Existing CBs except for the new Conversion Price and maturity dates of the Convertible Bonds.

5. Principal terms of the Convertible Bonds

Set out below are the principal terms and conditions of the Convertible Bonds. For details of the terms of the Convertible Bonds, please refer to section headed “the Subscription Agreements” in the Letter from the Board.

LETTER FROM GIRAFFE CAPITAL

5.1 2022 Convertible Bonds

Issuer:	The Company
Aggregate principal amounts:	HK\$99,840,000
Interest:	Non-interest bearing
Maturity date:	24 December 2023
Security:	Unsecured
Conversion right:	The holder(s) of the 2022 Convertible Bonds shall have the rights to convert the whole or the part (in multiples of HK\$1,000,000) of the outstanding principal amount of the 2022 Convertible Bonds into the Conversion Shares at any time from the date of issue and up to the seventh day prior to the maturity date of the 2022 Convertible Bonds.
Conversion restriction:	The holder(s) of the 2022 Convertible Bonds shall not have the right to convert the 2022 Convertible Bonds to the extent that immediately after such conversion (i) there will not be sufficient public float of the Shares as required under the GEM Listing Rules; or (ii) the holder(s) of the 2022 Convertible Bonds together with parties acting in concert with it will, in aggregate, control or be interested in 30% or such percentage of the voting rights of the Company which the holder(s) of the 2022 Convertible Bonds would be obliged to make a general offer under the Takeovers Code.
Conversion price:	HK\$0.05 per Conversion Share, subject to anti-dilutive adjustments.

LETTER FROM GIRAFFE CAPITAL

Provision of adjustment to the
Conversion Price:

The Conversion Price will be adjusted upon the occurrence
of the following events:

- (a) if and whenever there is an alternation of the number
of issued Shares by reason of any consolidation,
subdivision or reclassification, the Conversion Price
shall be adjusted by multiplying the Conversion Price
in force immediately prior to such alternation by the
following fraction:

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

where:

A = the number of Shares in issue immediately before
such alternation; and

B = the number of Shares in issue immediately after
such alternation.

Such adjustment shall become effective from the close
of business in Hong Kong on the business day
immediately preceding the date on which the
alternation takes effect.

LETTER FROM GIRAFFE CAPITAL

- (b) if and whenever the Company shall issue any Shares (excluding Shares paid up out of profits or reserves and issued in lieu in whole or in part of a cash dividend) credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{C}{D}$$

where:

C = the number of Shares in issue immediately before such issue; and

D = the number of Shares in issue immediately after such issue.

Each such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date of such issue.

LETTER FROM GIRAFFE CAPITAL

- (c) if and whenever the Company shall grant rights to Shareholder to acquire any cash assets of the Company or any subsidiaries of the Company, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such grant of rights by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price on the date on which the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of such grant; and

F = the fair market value on the date of such announcement or (as the case may require) the immediately preceding date, as determined in good faith by an approved investment bank of such rights which is attributable to one Share.

Provided that:

- (i) if in opinion of the relevant approved investment bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the amount of the said market price which should properly be attributed to the value of the rights; and
- (ii) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

LETTER FROM GIRAFFE CAPITAL

Each such adjustment shall be effective (if appropriately retroactively) from the commencement of the day next following the record date for such grant.

- (d) if and whenever the Company shall offer to the Shareholders new Shares for subscription by way of rights, or grant the Shareholders any options or warrants to subscribe for new Shares, at a price which is less than 80% of the market price at the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such issue or grant by the following fraction:

$$\frac{G + \frac{H \times I}{J}}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered or granted for subscription; and

I = the sum of the amount (if any) payable for the right, option or warrant to subscribe for each new Share and the subscription price payable for each new Share; and

J = the market price of one Share on the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement date of the day next following the record date of such offer or grant.

LETTER FROM GIRAFFE CAPITAL

- (e) (i) if and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the Total Effective Consideration per Share (as defined below) initially receivable for such securities is less than 80% of the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

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

where:

A = the number of Shares in issue immediately before the date of the issue;

B = the number of Shares which the Total Effective Consideration for the securities issued would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription right conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on a business day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

LETTER FROM GIRAFFE CAPITAL

- (ii) if and whenever the rights of conversion or exchange or subscription attached to any such securities as mentioned in subparagraph (e)(i) above are modified so that the Total Effective Consideration per Share (as defined below) initially received for such securities shall be (1) reduced and (2) less than 80% of the market price at the date of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

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

where:

A = the sum of the number of Shares in issue immediately before the date of such modification;

B = the number of Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

LETTER FROM GIRAFFE CAPITAL

Such adjustment shall become effective (if appropriate retrospectively) as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take into account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purpose of this sub-paragraph (e), the “**Total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

LETTER FROM GIRAFFE CAPITAL

- (f) If and whenever the Company shall issue wholly for cash any Shares (excluding the circumstances as described under sub-paragraphs (d) and (e)) at a price per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by the following fraction:

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

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate amount payable for the issue would purchase at such market price; and

C = the number of Shares so issued.

Such adjustment shall become effective on the date of the issue.

LETTER FROM GIRAFFE CAPITAL

- (g) if and whenever the Company shall issue Shares for the acquisition of assets at a Total Effective Consideration (as defined below) which is less than 80% of the market price (as defined below) at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted in such manner as may be determined by an approved investment bank. Such adjustment shall become effective on the date of issue. For the purpose of this subparagraph (g) “**Total Effective Consideration**” shall be the aggregate consideration credited as being paid for such Share by the Company on acquisition of the relevant asset without any deduction of any commission, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “**Total Effective Consideration per Share**” shall be the Total Effective Consideration divided by the number of Shares issued as aforesaid.
- (h) if and whenever the Company shall make any capital distribution to the Shareholders (whether on a reduction of capital or otherwise), the Conversion Price in force immediately prior to such distribution shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of the capital distribution; and

F = the fair market value on the day of such announcement or (as the case may require) the immediately preceding day, as determined in good faith by an approved investment bank of the capital distribution which is attributable to one Share.

LETTER FROM GIRAFFE CAPITAL

Provided that:

- (i) if in the opinion of the relevant approved investment bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the amount of the said market price which should properly be attributed to the value of the capital distribution; and
- (ii) the provisions of this sub-paragraph (h) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the capital distribution.

Ranking:

The Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with all other existing Shares in issue on the date of the conversion notice and shall be entitled to all dividends, other distributions, interests and entitlements.

Transferability:

Subject to the compliance with the GEM Listing Rules and other applicable laws and regulations, the 2022 Convertible Bonds may be transferred or assigned by the holder(s) of the 2022 Convertible Bonds in whole or in part in multiples of HK\$1,000,000 to any party provided that no transfer or assignment of the 2022 Convertible Bonds shall be made to any connected person of the Company (save and except for the associates of the holder(s) of the 2022 Convertible Bonds) without the prior consent of the Company.

LETTER FROM GIRAFFE CAPITAL

- Redemption: Unless previously converted, the Company shall pay 105% of the outstanding principal amount under the 2022 Convertible Bonds to the holder(s) of the 2022 Convertible Bonds on the maturity date of the 2022 Convertible Bonds.
- Early redemption: The Company or any of its subsidiaries may at any time prior to the maturity date redeem the 2022 Convertible Bonds at any price as mutually agreed between the Company or its relevant subsidiary and the holder(s) of the 2022 Convertible Bonds. The 2022 Convertible Bonds redeemed will be cancelled forthwith.
- Event of default: Customary events of default
- Upon the occurrence of an event of default, subject to a special resolution passed by a majority of not less than three-fourths of votes cast by the holder(s) of the 2022 Convertible Bonds at a meeting of the holder(s) of the 2022 Convertible Bonds or a written resolution signed by the holder(s) of the 2022 Convertible Bonds which amounted to three-fourths of the then outstanding principal amounts of the 2022 Convertible Bonds, the 2022 Convertible Bonds shall become immediately repayable at a redemption premium calculated with reference to an annual rate of return of 6%.
- Interest shall be chargeable on any amount outstanding from the 2022 Convertible Bonds from the date of the event of default until the actual date of payment.
- Voting rights: The 2022 Convertible Bonds shall not carry any voting rights.
- Listing: No application will be made by the Company for the listing of the 2022 Convertible Bonds on the Stock Exchange. Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

LETTER FROM GIRAFFE CAPITAL

Save as disclosed below, there is no other major changes in the terms of the 2014 Convertible Bonds as compared to the 2022 Convertible Bonds:

- (i) the maturity date of the 2014 Convertible Bonds shall be 24 June 2022 and the maturity date of the 2022 Convertible Bonds shall be 24 December 2023;
- (ii) the initial conversion price of the 2014 Convertible Bonds was HK\$0.35 per conversion share which has been adjusted to the current conversion price of HK\$1.75 per conversion share, and the initial Conversion Price of the 2022 Convertible Bonds shall be HK\$0.05 per Conversion Share; and
- (iii) the conversion period for the 2014 Convertible Bonds shall end on the seventh day prior to the maturity date of the 2014 Convertible Bonds, and the conversion period for the 2022 Convertible Bonds shall end on the seventh day prior to the maturity date of the 2022 Convertible Bonds.

On the assumption that the 2022 Convertible Bonds would be converted into Conversion Shares in full at the initial Conversion Price, 1,996,800,000 Conversion Shares will be issued, representing (1) approximately 197.35% of the existing issued share capital of the Company, (2) approximately 66.37% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares upon full conversion of the 2022 Convertible Bonds (assuming that no Conversion Shares to be allotted and issued under the 2023 Convertible Bonds), and (3) approximately 29.73% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares upon full conversion of the 2022 Convertible Bonds and the 2023 Convertible Bonds.

LETTER FROM GIRAFFE CAPITAL

5.2 2023 Convertible Bonds

Issuer:	The Company
Aggregate principal amounts:	HK\$185,400,000
Interest:	Non-interest bearing
Maturity date:	5 August 2024
Security:	Unsecured
Conversion right:	The holder(s) of the 2023 Convertible Bonds shall have the rights to convert the whole or the part (in multiples of HK\$1,000,000) of the outstanding principal amount of the 2023 Convertible Bonds into the Conversion Shares at any time from the date of issue and up to the seventh day prior to the maturity date of the 2023 Convertible Bonds.
Conversion restriction:	The holder(s) of the 2023 Convertible Bonds shall not have the right to convert the 2023 Convertible Bonds to the extent that immediately after such conversion (i) there will not be sufficient public float of the Shares as required under the GEM Listing Rules; or (ii) the holder(s) of the 2023 Convertible Bonds together with parties acting in concert with it will, in aggregate, control or be interested in 30% or such percentage of the voting rights of the Company which the holder of the 2023 Convertible Bonds would be obliged to make a general offer under the Takeovers Code.
Conversion price:	HK\$0.05 per Conversion Share, subject to anti-dilutive adjustments.

LETTER FROM GIRAFFE CAPITAL

Provision of adjustment to the
Conversion Price:

The Conversion Price will be adjusted upon the occurrence
of the following events:

- (a) if and whenever there is an alternation of the number
of issued Shares by reason of any consolidation,
subdivision or reclassification, the Conversion Price
shall be adjusted by multiplying the Conversion Price
in force immediately prior to such alternation by the
following fraction:

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

where:

A = the number of Shares in issue immediately before
such alternation; and

B = the number of Shares in issue immediately after
such alternation.

Such adjustment shall become effective from the close
of business in Hong Kong on the business day
immediately preceding the date on which the
alternation takes effect.

LETTER FROM GIRAFFE CAPITAL

- (b) if and whenever the Company shall issue any Shares (excluding Shares paid up out of profits or reserves and issued in lieu in whole or in part of a cash dividend) credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{C}{D}$$

where:

C = the number of Shares in issue immediately before such issue; and

D = the number of Shares in issue immediately after such issue.

Each such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date of such issue.

LETTER FROM GIRAFFE CAPITAL

- (c) if and whenever the Company shall grant rights to Shareholder to acquire any cash assets of the Company or any subsidiaries of the Company, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such grant of rights by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price on the date on which the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of such grant; and

F = the fair market value on the date of such announcement or (as the case may require) the immediately preceding date, as determined in good faith by an approved investment bank of such rights which is attributable to one Share.

Provided that:

- (i) if in opinion of the relevant approved investment bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the amount of the said market price which should properly be attributed to the value of the rights; and
- (ii) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

LETTER FROM GIRAFFE CAPITAL

Each such adjustment shall be effective (if appropriately retroactively) from the commencement of the day next following the record date for such grant.

- (d) if and whenever the Company shall offer to the Shareholders new Shares for subscription by way of rights, or grant the Shareholders any options or warrants to subscribe for new Shares, at a price which is less than 80% of the market price at the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such issue or grant by the following fraction:

$$\frac{G + \frac{H \times I}{J}}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered or granted for subscription; and

I = the sum of the amount (if any) payable for the right, option or warrant to subscribe for each new Share and the subscription price payable for each new Share; and

J = the market price of one Share on the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement date of the day next following the record date of such offer or grant.

LETTER FROM GIRAFFE CAPITAL

- (e) (i) if and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the Total Effective Consideration per Share (as defined below) initially receivable for such securities is less than 80% of the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

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

where:

A = the number of Shares in issue immediately before the date of the issue;

B = the number of Shares which the Total Effective Consideration for the securities issued would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription right conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on a business day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

LETTER FROM GIRAFFE CAPITAL

- (ii) if and whenever the rights of conversion or exchange or subscription attached to any such securities as mentioned in subparagraph (e)(i) above are modified so that the Total Effective Consideration per Share (as defined below) initially received for such securities shall be (1) reduced and (2) less than 80% of the market price at the date of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

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

where:

A = the sum of the number of Shares in issue immediately before the date of such modification;

B = the number of Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

LETTER FROM GIRAFFE CAPITAL

Such adjustment shall become effective (if appropriate retrospectively) as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take into account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purpose of this sub-paragraph (e), the “**Total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

LETTER FROM GIRAFFE CAPITAL

- (f) If and whenever the Company shall issue wholly for cash any Shares (excluding the circumstances as described under sub-paragraphs (d) and (e)) at a price per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by the following fraction:

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

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate amount payable for the issue would purchase at such market price; and

C = the number of Shares so issued.

Such adjustment shall become effective on the date of the issue.

LETTER FROM GIRAFFE CAPITAL

- (g) if and whenever the Company shall issue Shares for the acquisition of assets at a Total Effective Consideration (as defined below) which is less than 80% of the market price (as defined below) at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted in such manner as may be determined by an approved investment bank. Such adjustment shall become effective on the date of issue. For the purpose of this subparagraph (g) “**Total Effective Consideration**” shall be the aggregate consideration credited as being paid for such Share by the Company on acquisition of the relevant asset without any deduction of any commission, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “**Total Effective Consideration per Share**” shall be the Total Effective Consideration divided by the number of Shares issued as aforesaid.
- (h) if and whenever the Company shall make any capital distribution to the Shareholders (whether on a reduction of capital or otherwise), the Conversion Price in force immediately prior to such distribution shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price on the date on which the capital distribution is publicly announced or (failing any such announcement) the date immediately preceding the date of the capital distribution; and

F = the fair market value on the day of such announcement or (as the case may require) the immediately preceding day, as determined in good faith by an approved investment bank of the capital distribution which is attributable to one Share.

LETTER FROM GIRAFFE CAPITAL

Provided that:

- (i) if in the opinion of the relevant approved investment bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the amount of the said market price which should properly be attributed to the value of the capital distribution; and
- (ii) the provisions of this sub-paragraph (h) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the capital distribution.

Ranking:

The Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with all other existing Shares in issue on the date of the conversion notice and shall be entitled to all dividends, other distributions, interests and entitlements.

Transferability:

Subject to the compliance with the GEM Listing Rules and other applicable laws and regulations, the 2023 Convertible Bonds may be transferred or assigned by the holder(s) of the 2023 Convertible Bonds in whole or in part in multiples of HK\$1,000,000 to any party provided that no transfer or assignment of the 2023 Convertible Bonds shall be made to any connected person of the Company (save and except for the associates of the holder(s) of the 2023 Convertible Bonds) without the prior consent of the Company.

LETTER FROM GIRAFFE CAPITAL

- Redemption: Unless previously converted, the Company shall pay 105% of the outstanding principal amount under the 2023 Convertible Bonds to the holder(s) of the 2023 Convertible Bonds on the maturity date of the 2023 Convertible Bonds.
- Early redemption: The Company or any of its subsidiaries may at any time prior to the maturity date redeem the 2023 Convertible Bonds at any price as mutually agreed between the Company or its relevant subsidiary and the holder(s) of the 2023 Convertible Bonds. The 2023 Convertible Bonds redeemed will be cancelled forthwith.
- Event of default: Customary events of default
- Upon the occurrence of an event of default, subject to a special resolution passed by a majority of not less than three-fourths of votes cast by the holder(s) of the 2023 Convertible Bonds at a meeting of the holder(s) of the 2023 Convertible Bonds or a written resolution signed by the holder(s) of the 2023 Convertible Bonds which amounted to three-fourths of the then outstanding principal amounts of the 2023 Convertible Bonds, the 2023 Convertible Bonds shall become immediately repayable at a redemption premium calculated with reference to an annual rate of return of 6%.
- Interest shall be chargeable on any amount outstanding from the 2023 Convertible Bonds from the date of the event of default until the actual date of payment.
- Voting rights: The 2023 Convertible Bonds shall not carry any voting rights.
- Listing: No application will be made by the Company for the listing of the 2023 Convertible Bonds on the Stock Exchange. Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

LETTER FROM GIRAFFE CAPITAL

Save as disclosed below, there is no other major changes in the terms of the 2015 Convertible Bonds as compared to the 2023 Convertible Bonds:

- (i) the maturity date of the 2015 Convertible Bonds shall be 5 February 2023 and the maturity date of the 2023 Convertible Bonds shall be 5 August 2024;
- (ii) the initial conversion price of the 2015 Convertible Bonds was HK\$0.35 per conversion share which has been adjusted to the current conversion price of HK\$1.75 per conversion share, and the initial Conversion Price of the 2023 Convertible Bonds shall be HK\$0.05 per Conversion Share; and
- (iii) the conversion period for the 2015 Convertible Bonds shall end on the seventh day prior to the maturity date of the 2015 Convertible Bonds, and the conversion period for the 2023 Convertible Bonds shall end on the seventh day prior to the maturity date of the 2023 Convertible Bonds.

On the assumption that the 2023 Convertible Bonds would be converted into Conversion Shares in full at the initial Conversion Price, 3,708,000,000 Conversion Shares will be issued, representing (1) approximately 366.47% of the existing issued share capital of the Company, (2) approximately 78.56% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares upon full conversion of the 2023 Convertible Bonds (assuming that no Conversion Shares to be allotted and issued under the 2022 Convertible Bonds), and (3) approximately 55.21% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares upon full conversion of the 2022 Convertible Bonds and the 2023 Convertible Bonds.

6. Assessment of the principal terms of the Convertible Bonds and the Subscription Agreements

6.1 The Conversion Price

As disclosed in the Letter from the Board, the initial Conversion Price of HK\$0.05 per Conversion Share, which shall be subject to price adjustment, represents:

- (i) a premium of approximately 61.29% over the closing price of HK\$0.031 per Share as quoted on the Stock Exchange on 4 April 2022, being the date of the Subscription Agreements;

LETTER FROM GIRAFFE CAPITAL

- (ii) a premium of approximately 60.26% over the average of the closing prices of HK\$0.0312 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including 4 April 2022, being the date of the Subscription Agreements;
- (iii) a premium of approximately 59.24% to the average closing prices of HK\$0.0314 per Share for the thirty (30) consecutive trading days up to and including the date of the Subscription Agreements;
- (iv) a premium of approximately 16.28% over the closing price of HK\$0.043 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 32.43% to the net asset value of approximately HK\$0.074 per Share based on the audited consolidated net asset value attributable to owners of the Company of approximately HK\$75,002,000 as at 31 December 2021 and 1,011,829,233 Shares in issue.

As stated in the Letter from the Board, the Conversion Price was arrived at after arm's length negotiations between the Company and the Subscribers, taking into account of, among others, the recent trading performance of the Shares including the closing price of the Shares as at the date of the Subscription Agreements, the average of the closing prices of the Shares for the five consecutive trading days up to and including the date of the Subscription Agreements and the average of the closing prices of the Shares for the thirty consecutive trading days up to and including the date of the Subscription Agreements. Although the Conversion Price represents a discount of approximately 32.43% to the net asset value of approximately HK\$0.074 per Share attributable to owners of the Company as at 31 December 2021, having considered that (i) it represents a premium of approximately 16.28% to 61.29% over the above-mentioned closing price or average closing prices; (ii) the Share had been consistently traded at discount to the net asset value per share since January 2022; and (iii) the Group's net asset value fluctuated between negative and positive positions in the past few years, we are of the view that the recent market price of the Shares is more representative of the fair value of the Shares that is generally perceived by the market which has taken into account the prevailing market conditions, investor sentiment, and macroeconomic situations caused by the impacts of the COVID-19 pandemic. As such, the recent market price of the Shares is a more relevant factor in assessing the fairness and reasonableness of the Conversion Price. Accordingly, we concur with the Directors' view that the Conversion Price and the terms and conditions of the Subscription Agreements and the Convertible Bonds are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM GIRAFFE CAPITAL

6.2 Historical price performance of the Shares

To assess the fairness and reasonableness of the Conversion Price, we have performed a review on the daily closing price of the Shares from 5 April 2021 to and including 4 April 2022, the date of the Subscription Agreements (the “**Review Period**”), (being a period of one year, which is commonly used for analysis purpose to illustrate the general trend of the daily closing price and the level of movement of the Shares) and compared with the Conversion Price. We consider that a period of one year is representative and adequate to illustrate the price movements of the Shares to conduct a reasonable comparison between the daily closing price of the Shares and the Conversion Price.



Data source: The website of the Stock Exchange

During the Review Period, the average closing price was approximately HK\$0.136 per Share. The closing price ranged from HK\$0.023 per Share (the “**Lowest Closing Price**”) recorded on 6 January 2022 to HK\$0.227 per Share (the “**Highest Closing Price**”) recorded on 30 December 2021.

LETTER FROM GIRAFFE CAPITAL

Since the beginning of the Review Period, the closing price remained relatively stable and went up to the Highest Closing Price on 30 December 2021. We have enquired the Management regarding the rise of closing price and were advised that save for (i) the announcement of the Company dated 2 November 2021 relating to the expected improvement in loss position, and (ii) the release of third quarterly report of the Group for the three months and nine months ended 30 September 2021, they are not aware of any particular reason that may lead to the rise of the closing price. After staying around the Highest Closing Price till 5 January 2022, the Closing Price then exhibited a downward trend and hit the low point of HK\$0.023 per Share on 6 January 2022. We have enquired the Management regarding the downward trend of the closing price and were advised that, save for the recent downturn of stock prices of stock market globally and locally and low investors sentiment due to the recent volatility and market downturn of the global economy, in particular in Hong Kong and the PRC, as well as the deteriorating market sentiment caused by the impacts of the COVID-19 pandemic, they are not aware of any particular reasons that may lead to the downward trend of the closing price. Thereafter, the closing price closed at HK\$0.031 on the date of the Subscription Agreements (i.e. 4 April 2022).

As illustrated in the chart above, the Conversion Price of HK\$0.05 per Share falls within the range between the Lowest Closing Price and Highest Closing Price and it represents (i) a premium of approximately 117.4% over the Lowest Closing Price; (ii) a premium of approximately 61.3% over the closing price of HK\$0.031 per Share as quoted on the Stock Exchange on the date of the Subscription Agreements; (iii) a premium of approximately 60.3% over the average closing prices of HK\$0.0312 per Share for the 5 consecutive trading days up to and including the date of the Subscription Agreements; and (iv) a premium of approximately 59.2% to the average closing prices of HK\$0.0314 per Share for the 30 consecutive trading days up to and including the date of the Subscription Agreements. Although the Conversion Price was lower than the closing price of the Shares from April 2021 to early January 2022, considering that (i) the Conversion Price represents a premium over the closing price on the date of the Subscription Agreements and the average closing prices for the 5 and 30 consecutive trading days up to and including the date of the Subscription Agreements; and (ii) the closing price of the Shares has remained relatively stable since early January 2022 up to the date of Subscription Agreements and the Latest Practicable Date, we are of the view that the recent share prices are more representative of the latest market condition and sentiment, thus we concur with the Directors' view that the Conversion Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM GIRAFFE CAPITAL

6.3 Historical trading volume of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

Month/Period	Total trading volume (Shares)	No. of trading days	Average daily trading volume (Note 1) Approx. (Shares)	Percentage of the average daily trading volume over the total number of issued Shares (Note 2) Approx.
2021				
April (from 5 April)	11,176,998	18	620,944	0.07%
May	88,487,596	20	4,424,380	0.52%
June	69,561,520	21	3,312,453	0.39%
July	185,134,716	21	8,815,939	1.04%
August	185,197,024	22	8,418,047	1.00%
September	92,811,182	21	4,419,580	0.52%
October	75,132,200	18	4,174,011	0.49%
November	43,168,432	22	1,962,201	0.23%
December	79,782,664	22	3,626,485	0.36%
2022				
January	2,429,183,800	21	115,675,419	11.43%
February	23,968,880	17	1,409,934	0.14%
March	21,126,520	23	918,544	0.09%
April (Up to the date of the Subscription Agreements)	—	2	—	0.00%

Source: the website of the Stock Exchange

Notes:

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

LETTER FROM GIRAFFE CAPITAL

As illustrated in the above table, we noted that the exceptionally higher average daily trading volume of 115,675,419 Shares in January 2022 was mainly attributable to the increase in trading of Shares in a few trading days, which is not reflective of the average daily trading volume of the Shares during the Review Period. Save for January 2022, the average daily trading volume of the Shares was low during the Review Period, with around or below 1% for the average daily trading volume over the total number of issued Shares.

Based on the above results, we considered that the trading liquidity of the Shares during the Review Period were relatively thin, if the Company were to raise the necessary funds by way of placing, rights issue or open offer of new Shares, the subscription price would have to be set at a deeper discount to the prevailing market price of the Shares so as to attract subscription from potential investors or existing Shareholders.

6.4 Comparable analysis

To assess the fairness and reasonableness of the key terms of the Convertible Bonds, we have conducted a research, using our best endeavours, of recent proposed issue or altering conversion price of convertible bonds/notes under specific mandate. Based on our best endeavour and as far as we are aware, we have identified an exhaustive list of 24 comparable issues of convertible bonds/notes under specific mandate (excluding those are perpetual in term and have no maturity date, which we considered to be not comparable to the Convertible Bonds in terms of nature as the perpetual convertible bonds/notes offer a steady stream of interest indefinitely and the principal is generally not redeemable while the Convertible Bonds are redeemable at maturity date) (the “**Comparables**”), which were announced by companies listed on the Stock Exchange from 5 April 2021 to the date of the Subscription Agreements (the “**Comparison Period**”), being one year, to provide a general reference for the recent market practice in relation to the key terms of the convertible bonds/notes under similar market condition. We consider that the Comparison Period is appropriate since it provided, in our opinion, a reasonable and meaningful number of samples for our analysis purpose and the Comparables as a whole provide a fair and representative sample.

Shareholders should, however, note that the businesses, operations and prospect of the Company are not the same as the Comparables. Notwithstanding that, we consider that the terms of the Comparables were determined under similar market conditions and sentiment and hence, provide a general reference on the key terms for this type of transactions in Hong Kong. Therefore, we consider that the Comparables are indicative in assessing the fairness and reasonableness of the terms of the Convertible Bonds. The following table sets forth the relevant details of the Comparables:

LETTER FROM GIRAFFE CAPITAL

Date of announcement	Name of company	Stock code	Maturity (year)	Interest rate p.a. (%)	Estimated interest rate p.a. after adjusting for redemption at premium/discount on maturity date (Note 2)	Premium/(discount) of conversion price over/to			Maximum dilution effect (Note 3)
						the closing share price on the last trading day prior to/on the date of announcement	the average closing share price for the last five consecutive trading days prior to/on the date of the announcement	Approx. (%)	
28 Jan 2022	China Ruifeng Renewable Energy Holdings Limited	527	3.0	10.0	15.0 (Note 4)	9.1	7.1	39.3	
18 Jan 2022	Rare Earth Magnesium Technology Group Holdings Limited	601	5.0	0.0	0.0	0.0	2.0	18.2	
13 Jan 2022	China First Capital Group Limited (Note 5)	1269	1.0	8.0	8.0	(6.0)	(7.8)	63.6	
8 Dec 2021	Kirin Group Holdings Limited	8109	1.0	2.0	2.0	10.0	12.1	8.5	
7 Dec 2021	Bingo Group Holdings Limited	8220	3.8 (Note 6)	0.0	0.0	14.6	(15.6)	23.4	
3 Dec 2021	China Public Procurement Limited	1094	7.0	5.0	5.0	(2.0)	(7.3)	10.4	
30 Nov 2021	Titan Invo Technology Limited (Note 7)	872	5.0	0.0	0.0	(10.7)	(7.2)	10.1	
14 Nov 2021	Jimu Group Limited	8187	1.0	6.0	6.0	(16.7)	0.0	14.9	
22 Oct 2021	Wai Chun Bio-Technology Limited	660	3.0	2.0	2.0	0.0	(12.0)	9.7	
22 Oct 2021	Wai Chun Bio-Technology Limited (Note 8)	660	3.0	2.0	1.0	0.0	(12.0)	21.5	
21 Oct 2021	Wai Chun Group Holdings Limited	1013	3.0	2.0	2.0	(11.1)	(11.8)	5.1	
15 Oct 2021	Wai Chun Group Holdings Limited (Note 9)	1013	3.0	2.0	1.0	0.0	(33.2)	10.9	
23 Sep 2021	Investech Holdings Limited	1087	3.0	1.5	1.5	6.4	5.6	12.4	

LETTER FROM GIRAFFE CAPITAL

Date of announcement	Name of company	Stock code	Maturity (year)	Interest rate p.a. (%)	Estimated interest rate p.a. after adjusting for redemption at premium/discount on maturity date (Note 2) (%)	Premium/(discount) of conversion price over/to		Maximum dilution effect (Note 3) Approx. (percentage point)
						the closing share price on the last trading day prior to/on the date of announcement Approx. (%)	the average closing share price for the last five consecutive trading days prior to/on the date of the announcement Approx. (%)	
7 Sep 2021	Hua Yin International Holdings Limited	989	1.5 (Note 10)	2.0	2.0	2.6	1.0	1.2
30 Jul 2021	Century Sage Scientific Holdings Limited	1450	3.0	1.0	1.0	(71.3)	(64.2)	4.4
26 Jul 2021	China Environmental Technology Holdings Limited (Note 11)	646	3.0	8.0	16.3	13.6	9.7	26.5
23 Jul 2021	Hope Life International Holdings Limited	1683	3.0	3.0	3.0	17.1	13.0	39.8
9 Jul 2021	Expert Systems Holdings Limited	8319	5.0	2.5	2.5	5.7	6.1	10.5
29 Jun 2021	CMMB Vision Holdings Limited	471	7.0	0.0	0.0	22.8	20.7	70.3
11 Jun 2021	Hatcher Group Limited (formerly known as VBG International Holdings Limited)	8365	2.0	5.0	5.0	11.1	11.1	6.2
2 Jun 2021	Zhi Sheng Group Holdings Limited	8370	2.5	4.0	12.8 (Note 12)	49.3	44.5	6.8
31 May 2021	Hong Kong Resources Holdings Company Limited	2882	2.0	4.0	4.0	10.2	9.8	23.7
14 May 2021	Asia Television Holdings Limited	707	2.0	8.0	8.0	104.1	115.5	24.7
10 May 2021	ETS Group Limited	8031	2.0	0.0	2.5 (Note 13)	102.7	102.7	1.3
			Maximum	10.0	16.3	104.1	115.5	70.3
			Minimum	0.0	0.0	(71.3)	(64.2)	1.2

LETTER FROM GIRAFFE CAPITAL

Date of announcement	Name of company	Stock code	Maturity (year)	Interest rate p.a. (%)	Estimated interest rate p.a. after adjusting for redemption at premium/discount on maturity date (Note 2)	Premium/(discount) of conversion price over/to		Maximum dilution effect (Note 3)
						the closing share price on the last trading day prior to/on the date of announcement	the average closing share price for the last five consecutive trading days prior to/on the date of the announcement	
		Average	3.1	3.3	4.2	10.9	7.9	19.3
		2022 Convertible Bonds	1.5	0	3.3	61.3	60.3	42.4
		2023 Convertible Bonds	2.1	0	2.4	61.3	60.3	50.2
			(Note 14)					
								Approx. (percentage point)
								Approx. (%)
								Approx. (%)
								The Convertible Bonds
								54.3

Source: the relevant announcements or circular posted on the website of the Stock Exchange

Notes:

- (1) The relevant figures of the Comparables are with reference of those disclosed in the respective announcements or circular regarding issuance of convertible bonds/notes.
- (2) This is for illustrative purpose only.
- (3) This is for illustrative purpose only as there are restrictions under the terms of certain convertible bonds/notes that prohibit any conversion which will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code or will cause the public float of the shares to be less than the requirement under main board or GEM Listing Rules. Maximum dilution effect is calculated based on the difference between shareholding of the other public shareholders as at the date of the respective announcement and their shareholding after full conversion of convertible bonds.

- (4) According to the announcement of China Ruifeng Renewable Energy Holdings Limited dated 28 January 2022, the company shall redeem its convertible bonds on the maturity date at such amount equivalent to (i) 100% of the principal amount of the outstanding convertible bonds plus any accrued and unpaid interest; and (ii) with respect to the outstanding convertible bonds as at the date of the maturity date, (a) an amount equal to a gross yield to maturity of 15% per annum (calculated on the principal amount of the outstanding convertible bonds for the period from and including the issue date up to and including the actual date of payment) minus (b) all interest paid on or prior to the maturity date. Accordingly, 15% p.a. was used for the estimated interest rate p.a. after the adjustment.
- (5) China First Capital Group Limited announced to amend certain terms of the convertible bonds issued in 2017, including conversion price and maturity date, as disclosed in the announcement dated 13 January 2022.
- (6) The maturity date of the convertible bonds issued by Bingo Group Holdings Limited is 31 December 2025. The completion of issuing convertible bonds took place on 17 March 2022 as disclosed in the announcement dated 17 March 2022.
- (7) Titan Invo Technology Limited announced to revise existing conversion price of the convertible bonds issued in 2018 as disclosed in the announcement dated 30 November 2021.
- (8) Wai Chun Bio-Technology Limited announced to amend certain terms of the convertible bonds issued in 2020, including conversion price, interest rate, and redemption amount at maturity as disclosed in the announcement dated 22 October 2021. The redemption amount was amended to 98% of its principal amount at maturity. The remaining term to maturity was approximately 2 years from 22 October 2021. Accordingly, the interest rate was adjusted for analysis purpose only.
- (9) Wai Chun Group Holdings Limited announced to amend certain terms of the convertible bonds issued in 2020, including conversion price, interest rate, and redemption amount at maturity as disclosed in the announcement dated 15 October 2021. The redemption amount was amended to 98% of its principal amount at maturity. The remaining term to maturity was approximately 2 years from 15 October 2021. Accordingly, the interest rate was adjusted for analysis purpose only.
- (10) Hua Yin International Holdings Limited amended the maturity date afterwards as disclosed in the announcement dated 22 October 2021.
- (11) China Environmental Technology Holdings Limited announced to amend certain terms of the convertible bonds issued in 2018, including conversion price, maturity date, and redemption amount at maturity as disclosed in the announcement dated 26 July 2021. The redemption amount was amended to 125% of its principal amount at maturity. Accordingly, the interest rate was adjusted for analysis purpose only.
- (12) According to the announcement of Zhi Sheng Group Holdings Limited dated 2 June 2021, any outstanding convertible bonds shall be redeemed at 122% of its principal amount on the maturity date. Accordingly, the interest rate was adjusted for analysis purpose only.
- (13) According to the announcement of ETS Group Limited dated 10 May 2021, if the closing price of the shares as quoted on the Stock Exchange is equal to or is higher than the then applicable conversion price on the maturity date, any remaining principal amount shall be redeemed by the company at 105% of such remaining principal amount on the maturity date. Accordingly, the interest rate was adjusted for analysis purpose only.
- (14) 2022 Convertible Bonds mature on 24 December 2023; 2023 Convertible Bonds mature on 5 August 2024. For illustrative purpose only, assuming that the completion date of the Subscription occurred on 24 June 2022, the term to maturity of the abovementioned Convertible Bonds would be approximately 1.5 years and 2.1 years respectively.

LETTER FROM GIRAFFE CAPITAL

Conversion price

As set out in the table above, we note that the conversion price to: (i) the closing share price on the last trading day prior to/on the date of announcement in relation to the Comparables ranged from a discount of approximately 71.3% to a premium of approximately 104.1%, with the average being premium of approximately 10.9%; and (ii) the average closing share price for the last five consecutive trading days prior to/on the date of the announcement in relation to the Comparables ranged from a discount of approximately 64.2% to a premium of approximately 115.5%, with the average being premium of approximately 7.9%. As the Conversion Price is (i) at a premium of approximately 61.3% to the closing price per Share on the date of the Subscription Agreements; and (ii) at a premium of approximately 60.3% over the average closing price per Share for the last five (5) consecutive trading days immediately prior to and including the date of the Subscription Agreements, the premium as represented by the Conversion Price is within the range of the premium of the conversion prices of the Comparables. Furthermore, as discussed with the Management, the Conversion Price is a commercial decision negotiated between the Company and the Subscribers, arrived at considering, among other things, the recent market price of the Shares, the prevailing market conditions, and the amount of funds and capital needs.

With reference to our analysis above regarding the Comparables, we concur with the Directors' view that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

Interest rate

As shown in the table above, we note that the interest rate of the Comparables ranged from nil to 10.0% per annum, with the average being approximately 3.3% per annum. Pursuant to the terms of the Convertible Bonds, the Convertible Bonds are non-interest bearing; however, the Company shall pay 105% of the outstanding principal amount of the Convertible Bonds on the maturity date. For analysis purpose, we adjusted the interest rate based on redemption at premium/discount on maturity date (the “**Adjustment**”) of the Comparables. The estimated interest rate after the Adjustment with respect to the Comparables ranged from nil to 16.3% per annum, with the average being approximately 4.2% per annum. Considering (i) the term to maturity of the 2022 Convertible Bonds and 2023 Convertible Bonds were approximately 1.5 years and 2.1 years respectively, and (ii) the redemption at 105% as mentioned above, the annual interest rate after the Adjustment is estimated to be 3.3% and 2.4% respectively, both of which are still at the low end of the range and below the average interest rate after the Adjustment of the Comparables. Furthermore, the Company or any of its subsidiaries may at any time prior to the maturity date redeem the Convertible Bonds at any price as mutually agreed between the Company or its

LETTER FROM GIRAFFE CAPITAL

relevant subsidiary and the holder(s) of the Convertible Bonds. Accordingly, we concur with the Directors' view that the interest rate is fair and reasonable so far as the Independent Shareholders are concerned.

Term to maturity

The term to maturity of the Comparables ranged from 1 year to 7 years, with the average being approximately 3.1 years. Considering that the term to maturity of the 2022 Convertible Bonds and 2023 Convertible Bonds, which is approximately 1.5 years and 2.1 years respectively, falls within such range, we concur with the Directors' view that the term to maturity of the Convertible Bonds is fair and reasonable so far as the Independent Shareholders are concerned.

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

7. Potential dilution effect on the shareholding of the Company

With reference to the shareholding table in the section headed "Change in the shareholding structure of the Company" of the Letter from the Board and as confirmed by the Management, assuming that there are no other changes to the total number of Shares from the Latest Practicable Date to the completion, the shareholding in the Company held by the other public Shareholders will be diluted from approximately 63.89% as at the Latest Practicable Date to approximately 9.63% upon completion and assuming full exercise of the conversion rights attaching to the Convertible Bonds. However, such dilution effect is for illustration purpose only as, subject to the terms and conditions of the Convertible Bonds, the bondholder shall not have the right to convert the Convertible Bonds to the extent that immediately after such conversion (i) there will not be sufficient public float of the Shares as required under the GEM Listing Rules; or (ii) the bondholder together with parties acting in concert with it will, in aggregate, control or be interested in 30% or such percentage of the voting rights of the Company which the bondholder would be obliged to make a general offer under the Takeovers Code.

We are aware of the potential higher dilution effect as a result of the conversion of the Convertible Bonds based on the Conversion Price. Nonetheless, having considered that (i) the Conversion Price is set at a huge premium over the closing price of the Shares on the date of the Subscription Agreements, therefore the Convertible Bonds are currently out-of-money; (ii) the Group's financial performance and position; (iii) the Group's immediate needs for financial resources to settle 2014 Convertible Bonds; (iv) the Convertible Bonds are the preferred option over other equity and debt financing alternatives; (v) the terms of the Subscription Agreements and the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are

LETTER FROM GIRAFFE CAPITAL

concerned; (vi) the Convertible Bonds, when converted into Conversion Shares, will be recognised as equity of the Company and will hence enlarge the capital base and potentially improve the net asset position of the Company; (vii) there is conversion restriction in order to comply with the GEM Listing Rules; (viii) the maximum dilution effect of the Convertible Bonds is within the range in respect of the Comparables as shown in the table above; and (ix) the reasons for and benefits of the Subscription as mentioned above, we concur with the view of the Management that such potential dilution effect on the shareholding interests of the existing public Shareholders resulting from the Subscription is justifiable.

8. Financial effects of the Subscription for the Convertible Bonds

a. Effect on liquidity

According to the Annual Report 2021, the cash and cash equivalents of the Group was approximately HK\$95.9 million as at 31 December 2021. As the consideration payable by the Subscribers under the Subscription Agreements will be satisfied by setting off the aggregate outstanding principal amounts of the Existing CBs, there will be no proceeds arising from the issue of the Convertible Bonds. Accordingly, there will be no additional cash or fund injected into the Company upon completion. Save for the cash outflow of the expenses relating to the professional advisory fees and ancillary costs to be incurred by the Company in relation to the Subscription, there would be no material cash flow impact on the Company upon completion as confirmed by the Management.

b. Effect on gearing ratio

According to the Annual Report 2021, the gearing ratio of the Group was approximately 3.7 times as at 31 December 2021, calculated based on the total debts of approximately HK\$281.2 million over shareholder's equity of approximately HK\$75.0 million. In any event the bondholder or the transferee of the Convertible Bonds exercises the conversion rights attaching to the Convertible Bonds, assuming no other factors affecting the financial position of the Group, the gearing position would improve and the conversion of the Convertible Bonds by the bondholder into Conversion Shares would enlarge the capital base and increase the net asset value of the Group. On the other hand, if the conversion rights attaching to the Convertible Bonds are not exercised within the maturity period, the gearing position of the Group may be slightly increased due to redemption of 105% of the outstanding principal amount on maturity date, which would potentially increase the liability component of the Convertible Bonds. The Management expects that there will not be any material adverse impact to the gearing of the Group as a result of the issue of the Convertible Bonds, subject to the valuation to be prepared by an independent valuer.

LETTER FROM GIRAFFE CAPITAL

c. Effect on net assets

According to the Annual Report 2021, the equity attributable to owners of the Company was approximately HK\$75.0 million as at 31 December 2021. As the consideration payable by the Subscribers under the Subscription Agreements will be satisfied by setting off the aggregate outstanding principal amounts of the Existing CBs, there will be no proceeds arising from the issue of the Convertible Bonds. The Subscription for the Convertible Bonds therefore would not lead to any increase in cash and cash equivalents of the Company. The exact amount of the respective fair value of the liability and derivative components of the Convertible Bonds and their financial impacts to the Company will be subject to the review by the auditors of the Company and/or the assessment and valuation by an independent valuer at the time of completion of the Subscription for the Convertible Bonds.

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

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that although the entering into of the Subscription Agreements was not in the ordinary and usual course of business of the Group, the proposed issue of the Convertible Bonds to the connected persons of the Company at the subsidiary level, the Subscription Agreements and the transactions contemplated thereunder, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution for approving the Subscription Agreements and the transactions contemplated thereunder at the SGM.

Yours faithfully,
For and on behalf of
Giraffe Capital Limited
Johnson Chen
Managing Director

Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 14 years of experience in the field of corporate finance advisory.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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. SHARE CAPITAL

The authorised and issued share capital of the Company

(i) As at the Latest Practicable Date

<i>Authorised:</i>	<i>HK\$</i>
<u>2,000,000,000</u> Shares of HK\$0.05 each	<u>100,000,000.00</u>
 <i>Issued and fully-paid:</i>	
<u>1,011,829,233</u> Shares of HK\$0.05 each	<u>50,591,461.65</u>

(ii) Immediately following the Increase in Authorised Share Capital (assuming no change in the number of issued Shares)

<i>Authorised:</i>	<i>HK\$</i>
<u>20,000,000,000</u> Shares of HK\$0.05 each	<u>1,000,000,000.00</u>
 <i>Issued and fully-paid:</i>	
1,011,829,233 Shares of HK\$0.05 each	50,591,461.65
<u>5,704,800,000</u> Conversion Shares to be allotted and issued upon full conversion of the Convertible Bonds	<u>285,240,000.00</u>
<u>6,716,629,233</u> Shares of HK\$0.05 each	<u>335,831,461.65</u>

All the Shares in issue are fully-paid and rank *pari passu* in all respects including all rights as to dividends, voting and return of capital.

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

As at the Latest Practicable Date, there is no arrangement under which future dividends are/will be waived or agreed to be waived.

As at the Latest Practicable Date, save for the Existing CBs, the Company had no other outstanding warrants, options or convertible or exchangeable securities in issue which would otherwise confer any right to subscribe for, convert or exchange into Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in shares and underlying shares

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company and their associates in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the GEM Listing Rules, were as follows:

Long and short positions in Shares and underlying Shares

Name of Director	Nature of interest	Number of Shares/underlying Shares held	Approximately percentage or attributable percentage of shareholding
Mr. Zhang Wei	Beneficial owner	127,377,920(L)	12.59%
Ms. Li Wei	Beneficial owner	72,652,800 (L)	7.18%

(L) denotes long position

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at the Latest Practicable Date, none of the Directors is a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial shareholders' interests and short positions in shares and underlying shares

As at the Latest Practicable Date, so far as any Directors are aware, the interest or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares, underlying Shares or debentures of the Company which are required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the issued voting shares of any member of the Group were as follows:

Long and short positions in Shares and underlying Shares

Name of substantial Shareholder	Nature of interest	Number of Shares/underlying Shares held	Approximately percentage or attributable percentage of shareholding
Hui Kwan Wah Hugo Yip Sze Pui Fione (Note 1)	Beneficial owner	155,330,000(L)	15.35%
Exuberant Global (Note 2)	Beneficial owner	102,285,714 (L)	10.10%
Bustling Capital (Note 3)	Beneficial owner	61,337,142 (L)	6.06%

(L) denotes long position

Notes:

1. According to the filings, the 155,330,000 Shares are jointly held by Mr. Hui Kwan Wah Hugo and Ms. Yip Sze Pui Fione.
2. The 102,285,714 Shares held by Exuberant Global represent 102,285,714 Shares to be issued upon full conversion of the Existing CBs. Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the 102,285,714 underlying Shares held by Exuberant Global.
3. The 61,337,142 Shares held by Bustling Capital represent (i) 10,000,000 Shares and (ii) 51,337,142 shares to be issued upon full conversion of the Existing CBs. Bustling Capital is wholly and beneficially owned by Ms. Jin Yu. Accordingly, Ms. Jin Yu is deemed to be interested in the 61,337,142 underlying Shares. In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in 61,337,142 Shares held by Bustling Capital.

Saved as disclosed above and herein, as at the Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying Shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the issued voting shares of any member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contracts with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors, directly or indirectly, had any interest in any assets which have been since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to or by any member of the Group, or are proposed to be acquired or disposed of by or leased to or by any member of the Group.

6. INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors or the controlling Shareholders or their respective associates had interests in any business which competes or may compete, either directly or indirectly, with the businesses of the Group or has or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

7. LITIGATION AND CLAIMS

As at the Latest Practicable Date, there was no litigation or claim of material importance pending or threatened against any member of the Group.

8. EXPERTS AND CONSENTS

The following sets out the qualifications of the expert(s) who have been named in this circular:

Name	Qualifications
Giraffe Capital	a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO

Giraffe Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report (as the case may be) and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert:

- (a) did not have any shareholding, either directly or indirectly, in any member of the Group;
- (b) did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any interest, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which were 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 consolidated financial statements of the Group were made up).

The letter from Giraffe Capital dated 13 June 2022 set out on pages 47 to 103 in this circular was given for incorporation in this circular.

9. NO MATERIAL ADVERSE CHANGE

As disclosed in the quarterly report of the Company for the three months ended 31 March 2022 (the “**Period**”) dated 13 May 2022, the Group recorded a net loss of HK\$25.3 million for the Period which is principally attributable to (i) an increase in charge of loss allowance for expected credit losses on loans to customers (net of corresponding deferred tax impacts) for the Period by approximately HK\$6.1 million as compared to that for the three months ended 31 March 2021 mainly due to the resurgence of COVID-19 pandemic since early 2022 which has brought an adverse impact on the financial condition of certain customers of the Group, resulting in a

deterioration of the customers' aging; and (ii) a fair value loss on financial assets at fair value through profit or loss of approximately HK\$8.6 million due to an unrealised loss recognised from the listed equity investment.

Save as disclosed above, the Directors confirm that, as at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 31 December 2021, the date to which the latest published audited consolidated financial statements of the Group were made up.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange and the website of the Company for a period of 14 days from the date of this circular:

- (a) the Subscription Agreements;
- (b) the supplemental agreements dated 6 June 2022 and entered into between the parties to the Subscription Agreements;
- (c) the letter from the Board dated 13 June 2022, the text of which is set out on pages 7 to 44 of this circular;
- (d) the letter from the Independent Board Committee dated 13 June 2022, the text of which is set out on pages 45 to 46 of this circular;
- (e) the letter from Giraffe Capital dated 13 June 2022, the text of which is set out on pages 47 to 103 of this circular;
- (f) the letter of consent from Giraffe Capital dated 13 June 2022 referred to in the above paragraph headed "8. Experts and Consents" in this appendix; and
- (g) this circular.

NOTICE OF SGM



Capital Finance Holdings Limited

首都金融控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 8239)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the “**SGM**”) of Capital Finance Holdings Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) will be held at Unit 2613A, 26th Floor, Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong at 3:00 p.m. on Tuesday, 28 June 2022 for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “THAT

- (a) the authorised share capital of the Company be increased from HK\$100,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.05 each (each a “**Share**”) to HK\$1,000,000,000 divided into 20,000,000,000 Shares by the creation of an additional 18,000,000,000 Shares (the “**Increase in Authorised Share Capital**”); and
- (b) any one or more of the directors of the Company (the “**Director**”) be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the Increase in Authorised Share Capital.”

2. “THAT

- (a) the conditional subscription agreements (the “**2022 CB Subscription Agreements**”) dated 4 April 2022 (as amended and supplemented on 6 June 2022) and entered into between the Company as issuer and each of Bustling Capital Limited and Choice Magic Limited as subscribers respectively in relation to the issue of unlisted convertible bonds (the “**2022 Convertible Bonds**”) in the

NOTICE OF SGM

principal amount of HK\$99,840,000 by the Company (a copy of the 2022 CB Subscription Agreements and the supplemental agreements having been produced to the SGM and marked “A” and initialed by the chairman of the SGM for the purpose of identification), and the transactions contemplated thereunder (including but not limited to the issue of the 2022 Convertible Bonds and the allotment and issue of the conversion Shares (the “**2022 CB Conversion Shares**”) upon exercise of conversion rights attaching to the 2022 Convertible Bonds) be and are hereby approved, confirmed and ratified;

- (b) the board of Directors be and is hereby granted a specific mandate to allot and issue the 2022 CB Conversion Shares upon exercise of the conversion rights attached to the 2022 Convertible Bonds in accordance with the terms and conditions of the 2022 Convertible Bonds; and
- (c) any one or more Director(s) be and is/are hereby authorised to implement and take all steps and do all acts and things and execute all such documents (including under seal, where applicable) which he/she/they consider(s) necessary, desirable or expedient to give effect to the 2022 CB Subscription Agreements and the transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

3. “THAT

- (a) the conditional subscription agreements (the “**2023 CB Subscription Agreements**”) dated 4 April 2022 (as amended and supplemented on 6 June 2022) and entered into between the Company as issuer and each of Exuberant Global Limited and Mr. Liu Yongli as subscribers respectively in relation to the issue of unlisted convertible bonds (the “**2023 Convertible Bonds**”) in the principal amount of HK\$185,400,000 by the Company (a copy of the 2023 CB Subscription Agreements and the supplemental agreements having been produced to the SGM and marked “B” and initialed by the chairman of the SGM for the purpose of identification), and the transactions contemplated thereunder (including but not limited to the issue of the 2023 Convertible Bonds and the allotment and issue of the conversion Shares (the “**2023 CB Conversion Shares**”) upon exercise of conversion rights attaching to the 2023 Convertible Bonds) be and are hereby approved, confirmed and ratified;

NOTICE OF SGM

- (b) the board of Directors be and is hereby granted a specific mandate to allot and issue the 2023 CB Conversion Shares upon exercise of the conversion rights attached to the 2023 Convertible Bonds in accordance with the terms and conditions of the 2023 Convertible Bonds; and
- (c) any one or more Director(s) be and is/are hereby authorised to implement and take all steps and do all acts and things and execute all such documents (including under seal, where applicable) which he/she/they consider(s) necessary, desirable or expedient to give effect to the 2023 CB Subscription Agreements and the transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

By order of the Board
Capital Finance Holdings Limited
Zhang Wei
Chairman and Executive Director

Hong Kong, 13 June 2022

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:

Unit 2613A, 26th Floor
Mira Place Tower A
132 Nathan Road
Tsimshatsui
Kowloon, Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll vote may be given either personally or by proxy. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

NOTICE OF SGM

3. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the office of the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM (i.e. Sunday, 26 June 2022 at 3:00 p.m.) or any adjournment thereof.
4. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting in cases where the SGM was originally held within 12 months from such date.
5. Where there are joint holders of any shares, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the SGM if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.
7. The Company's register of members will be closed during the period from Thursday, 23 June 2022 to Tuesday, 28 June 2022, both days inclusive, for the purpose of ascertaining the Shareholders' entitlement to attend and vote at the SGM. In order to be eligible to attend and vote at the SGM, all duly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 22 June 2022.
8. The voting at the SGM (or any adjournment thereof) shall be taken by way of poll.