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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in ShiFang Holding Limited (the “Company”), 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.

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**SHIFANG HOLDING LIMITED**

**十方控股有限公司**

*(incorporated in the Cayman Islands and re-domiciled and continued in Bermuda with limited liability)*

**(Stock code: 1831)**

**(I) LOAN CAPITALISATION INVOLVING THE ISSUE OF  
CONVERTIBLE PREFERENCE SHARES CONSTITUTING  
CONNECTED TRANSACTION;  
(II) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;  
AND  
(III) NOTICE OF SPECIAL GENERAL MEETING**

**Financial Adviser to the Company**



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



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

A letter from the Board is set out on pages 6 to 19 of this circular. A letter from the Independent Board Committee is set out on page 20 of this circular. A letter from the Independent Financial Adviser is set out on pages 21 to 44 of this circular.

A notice convening the SGM to be held on Friday, 4 November 2022 at 11:00 a.m. at 6/F, Hua Fu Mansion, No. 121 Gutian Road, Gulou District, Fuzhou, Fujian Province, the PRC is set out on pages SGM-1 to SGM-4 of this circular. A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. Such form of proxy is also published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). Whether or not you intend to attend the SGM, you are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

12 October 2022

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## PRECAUTIONARY MEASURES FOR THE SGM

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In light of the coronavirus pandemic, and to better protect the safety and health of the Shareholders and other participants attending the SGM, the Company will implement the following precautionary measures at the venue of the SGM (the “**Venue**”):

1. Compulsory body temperature checks will be conducted on all persons attending the SGM at the waiting area outside the Venue before they are admitted to the Venue. Any person with a body temperature of over 37.3 degree celsius, or who has any flu-like symptoms, or is otherwise apparently unwell will not be admitted to the Venue.
2. All attendees must wear face masks at all times inside the Venue or at the waiting area outside the Venue.
3. The attendees of the SGM may be required to fill in a travel and health declaration form to confirm that (i) he/she has no flu-like symptoms within 7 days immediately before the SGM; and (ii) within 14 days immediately before the SGM: (a) he/she has not travelled from other countries; (b) he/she is/was not under compulsory quarantine or medical surveillance order by any government authorities of any countries; (c) he/she has not had/has close contact with confirmed case(s) and/or probable case(s) of COVID-19 patient(s); and (d) he/she does/did not live with any person under home quarantine. Any person who fails to provide the required confirmation may be requested to leave or denied entry into the Venue.
4. Seating at the Venue will be arranged in a manner to allow for appropriate social distancing. As a result, there may be limited capacity for Shareholders to attend the SGM. The Company may limit the number of attendees at the SGM as may be necessary to avoid over-crowding.
5. Any attendee who does not follow any of the abovementioned measures will be refused admission to the Venue or requested to leave the Venue.
6. No refreshments or drinks will be served at the SGM to avoid close contact of attendees.
7. All attendees are recommended to clean their hands with alcohol-based hand sanitizer before entering the Venue.

Shareholders are reminded that attendance at the SGM in person is not necessary for the purpose of exercising voting rights. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the SGM, and appointing the chairman of the meeting as a proxy to vote on relevant resolution at the SGM as instructed in accordance with the relevant proxy form instead of attending the SGM in person. For details, please refer to the proxy form of the SGM.

The Company will keep monitoring the evolving COVID-19 situation and may implement additional measures which, if any, will be announced closer to the date of the SGM.

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## DEFINITIONS

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

“acting in concert”	having the meaning ascribed thereto under the Takeovers Code
“associate(s)”	having the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or a day on which a typhoon signal no. 8 or above or black rainstorm signal is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which banks in Hong Kong are generally open for retail banking business
“Company”	ShiFang Holding Limited, a company incorporated in the Cayman Islands with limited liability and re-domiciled and continued in Bermuda and whose shares are listed on the Main Board of the Stock Exchange with stock code: 1831
“connected person(s)”	having the meaning ascribed thereto under the Listing Rules
“Conversion Ratio”	the ratio of the number of Shares to the number of CPS at conversion, initially one for one (but subject to adjustments) and as more particularly described in the paragraph headed “Principal terms of the CPS” in this circular
“CPS” or “Convertible Preference Share(s)” or “Non-voting CPS”	an aggregate of 383,636,331 unlisted, non-voting convertible preference shares of the Company to be issued and allotted to the Creditor under the Loan Capitalisation Agreement entitling the holders thereof to convert the same into the CPS Conversion Shares at the Conversion Ratio
“CPS Conversion Shares”	the Shares to be allotted and issued by the Company upon the exercise by the CPS Holders of the conversion rights attaching to the CPS
“CPS Holder(s)”	holder(s) of the CPS

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## DEFINITIONS

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“CPS Specific Mandate”	the specific mandate proposed to be sought from the Independent Shareholders at the SGM to authorize the Directors to issue the CPS and the CPS Conversion Shares (on conversion)
“CPS Terms”	the rights and restrictions of the CPS as determined by the Directors pursuant to Bye-law 8 of the Company’s Bye-laws and as set out in Appendix I to this circular
“Creditor”	TopBig International Development Limited, a company incorporated in the British Virgin Islands with limited liability whose entire issued share capital is legally and beneficially owned by Mr. Chen
“Creditor’s Loan”	the outstanding sum owed by the Group to the Creditor under the Creditor’s Loan Agreement, including loan principal and interest accrued thereon
“Creditor’s Loan Agreement”	the loan agreement entered into between the Company and the Creditor dated 22 April 2022, under which the Creditor agreed to continue to provide the Creditor’s Loan to the Company for a period of two years at the interest rate of 3% per annum
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Increase in Authorised Share Capital”	the proposed increase in the authorised share capital of the Company from HK\$1,000,000,000 to HK\$1,100,000,000 by the creation of additional 10,000,000,000 CPS of par value of HK\$0.01 each, as disclosed in the Company’s announcement dated 30 September 2022
“Independent Board Committee” or “IBC”	the independent committee comprising all the independent non-executive Directors, established by the Board to advise the Independent Shareholders on the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate

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## DEFINITIONS

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“Independent Financial Adviser” or “IFA” or “Red Sun”	Red Sun Capital Limited, a corporation licensed to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate
“Independent Shareholders”	Shareholders other than (i) the Creditor, Mr. Chen and their associates; and (ii) any Shareholders who have a material interest (within the meaning of the Listing Rules) in the Loan Capitalisation and the CPS Specific Mandate and are required by the Listing Rules to abstain from voting on the relevant resolution(s) at the SGM
“Latest Practicable Date”	3 October 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Capitalisation”	the capitalisation of the Creditor’s Loan owed by the Company to the Creditor through the issuance of the CPS pursuant to the terms of the Loan Capitalisation Agreement (as modified by the Supplemental Agreement)
“Loan Capitalisation Agreement”	the loan capitalisation agreement dated 30 July 2022 entered into between the Company and the Creditor in relation to the Loan Capitalisation, as supplemented by the Supplemental Agreement
“Loan Capitalisation Completion”	the completion of the Loan Capitalisation in accordance with the terms and conditions of the Loan Capitalisation Agreement
“Loan Capitalisation Conditions”	the conditions precedent which must be fulfilled (or waived, where applicable) prior to the Loan Capitalisation Completion according to the Loan Capitalisation Agreement

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## DEFINITIONS

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“Loan Capitalisation Long Stop Date”	the long stop date for the fulfillment of the Loan Capitalisation Conditions as extended by the Supplemental Agreement, being 30 November 2022 or such later date as may mutually be agreed in writing between the parties
“Mr. Chen”	Mr. Chen Zhi (陳志), an executive Director, the chairman, the chief executive officer and a substantial shareholder of the Company, and the sole shareholder and director of the Creditor
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	a special general meeting of the Company to be held for the purpose of considering, and if thought fit, approving, among other things, the Loan Capitalisation and the transactions contemplated thereunder, including the issue of the CPS and the allotment and issue of the CPS Conversion Shares (upon conversion) under the CPS Specific Mandate
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	having the meaning ascribed thereto under the Listing Rules
“Supplemental Agreement”	the supplemental agreement entered into between the Company and the Creditor and dated 30 September 2022, pursuant to which the parties mutually agreed to amend the terms of the CPS to be issued by the Company to the Creditor under the Loan Capitalisation Agreement and to extend the Loan Capitalisation Long Stop Date from 31 October 2022 to 30 November 2022, as detailed in the section headed “Supplemental Agreement” in the letter from the Board of this circular
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

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## DEFINITIONS

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“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

*For the purpose of this circular, unless otherwise indicated, amounts denominated in RMB have been converted into HK\$ at the exchange rate at HK\$1.00 = RMB0.86. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.*



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LETTER FROM THE BOARD

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**SHIFANG HOLDING LIMITED**

**十方控股有限公司**

*(incorporated in the Cayman Islands and re-domiciled and continued in Bermuda with limited liability)*

**(Stock code: 1831)**

*Executive Directors:*

Mr. Chen Zhi (*Chairman & Chief Executive Officer*)

Mr. Yu Shi Quan

*Non-executive Directors:*

Mr. Chen Wei Dong

Ms. Chen Min

*Independent Non-executive Directors:*

Mr. Zhou Chang Ren

Mr. Wong Heung Ming, Henry

Mr. Cai Jian Quan

*Registered Office:*

Clarendon House, 2 Church Street

Hamilton HM 11

Bermuda

*Principal Place of*

*Business in Hong Kong*

Rooms 2801-05, 28/F

China Insurance Group Building

141 Des Vouex Road Central

Hong Kong

12 October 2022

*To the Shareholders,*

Dear Sir or Madam,

**(I) LOAN CAPITALISATION INVOLVING THE ISSUE OF  
CONVERTIBLE PREFERENCE SHARES CONSTITUTING  
CONNECTED TRANSACTION; AND  
(II) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

**INTRODUCTION**

Reference is made to the announcements of the Company dated 4 August 2022 and 30 September 2022 in relation to, among others, the Loan Capitalisation, the Supplemental Agreement and the Increase in Authorised Share Capital.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) further information of the Loan Capitalisation and the Increase in Authorised Share Capital; (ii) the advice from the Independent Board Committee to the Independent Shareholders in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate; (iv) a notice of SGM; and (v) other information as required under the Listing Rules.

### LOAN CAPITALISATION

On 30 July 2022, the Company entered into the Loan Capitalisation Agreement with the Creditor pursuant to which the Company conditionally agreed to issue, and the Creditor conditionally agreed to subscribe for, 383,636,331 CPS at the subscription price of HK\$0.57 per CPS in full and final settlement of the entire outstanding balance of the Creditor's Loan (including principal and interest) as at the date of the Loan Capitalisation Completion. The total outstanding balance of the Creditor's Loan owed by the Group to the Creditor as at 30 July 2022 amounted to RMB188,058,530 (equivalent to approximately HK\$218,672,709). The CPS Terms, i.e., the terms and conditions of the CPS, are set out in Appendix I to this circular.

### Supplemental Agreement

On 30 September 2022, the Company entered into the Supplemental Agreement with the Creditor, pursuant to which the parties mutually agreed to amend the CPS Terms, such that the CPS no longer carry any contractual obligation of the Company to pay any fixed interest of 3% per annum to the CPS Holders. Instead, each CPS shall confer on the holder(s) the right to receive dividends *pari passu* with the holders of the ordinary Shares on the basis of the number of CPS Conversion Shares into which each CPS may be converted and on an as-converted basis. In addition, the adjustment mechanisms of the Conversion Ratio of the CPS (as contained in the section headed "Adjustment Events" on pages 7 to 9 of the Company's announcement dated 4 August 2022) are removed in their entireties, with the only exception as follows, namely, that if and whenever the ordinary Shares are consolidated or sub-divided into a different nominal amount, then the same consolidation or sub-division shall be effected on the CPS, such that the Conversion Ratio shall remain as one CPS for one ordinary Share as consolidated or sub-divided, as the case may be. The transferability clause of the CPS is also amended to clarify that if any CPS is intended to be transferred to a connected person of the Company, such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any). Further, the Loan Capitalisation Long Stop Date for the fulfillment of the Loan Capitalisation Conditions shall be extended from 31 October 2022 to 30 November 2022, or such later date as may be mutually agreed in writing between the Company and the Creditor.

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## LETTER FROM THE BOARD

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### CPS Conversion Shares

Based on the initial Conversion Ratio of one CPS into one Share and assuming there is no other change in the issued share capital of the Company, the 383,636,331 CPS Conversion Shares to be allotted and issued by the Company upon the exercise in full of the conversion rights attaching to the 383,636,331 CPS represent: (a) approximately 40.66% of the existing issued share capital of the Company; and (b) approximately 28.91% of the issued share capital of the Company as enlarged by the issue of 383,636,331 CPS Conversion Shares.

### Subscription price

The subscription price of HK\$0.57 per CPS represents:

- (i) a discount of approximately 18.57% to the closing price of HK\$0.70 per Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of signing of the Loan Capitalisation Agreement;
- (ii) a premium of approximately 45.04% over the average closing price of HK\$0.393 per Share as quoted on the Stock Exchange for the five trading days immediately preceding the date of signing of the Loan Capitalisation Agreement;
- (iii) a premium of approximately 341.86% over the average closing price of HK\$0.129 per Share as quoted on the Stock Exchange for the 50 trading days immediately preceding the date of signing of the Loan Capitalisation Agreement;
- (iv) a premium of approximately 144.64% over the average closing price of HK\$0.233 per Share as quoted on the Stock Exchange for the 250 trading days immediately preceding the date of signing of the Loan Capitalisation Agreement;
- (v) a premium of 14.00% over the closing price of HK\$0.500 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vi) a premium over the net liabilities of HK\$0.184 per Share on the basis of the unaudited deficit in the equity attributable to owners of the Company of approximately RMB149,671,000 (equivalent to approximately HK\$174,036,047) as at 30 June 2022 and 943,438,836 Shares currently in issue.

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## LETTER FROM THE BOARD

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### Conditions Precedent to the Loan Capitalisation

Completion of the Loan Capitalisation is conditional upon:

- (1) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the CPS Conversion Shares upon conversion of the CPS, and such approval not having been revoked or cancelled prior to the Loan Capitalisation Completion;
- (2) the obtaining by the Company of the approval of the Independent Shareholders at the SGM in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder and the grant of the CPS Specific Mandate;
- (3) the compliance of any other regulatory requirements whether under the Listing Rules or otherwise; and
- (4) all necessary consents, authorisations, licences and approvals required to be obtained by the Company in relation to the Loan Capitalisation Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect.

None of the Loan Capitalisation Conditions above can be waived by any party in any event. Under the Supplemental Agreement, the Loan Capitalisation Long Stop Date for the fulfillment of the Loan Capitalisation Conditions was extended from 31 October 2022 to 30 November 2022, or such later date as may be mutually agreed in writing between the Company and the Creditor. If the Loan Capitalisation Conditions are not fulfilled (or waived, where applicable) at or before 5:00 p.m. on the Loan Capitalisation Long Stop Date, then unless the Company and the Creditor mutually agree to further extend the Loan Capitalisation Long Stop Date, the Loan Capitalisation Agreement shall lapse and become null and void and the parties to the Loan Capitalisation Agreement shall be released from all obligations thereunder forthwith, save for liabilities for any antecedent breaches thereof.

As at the Latest Practicable Date, none of the Loan Capitalisation Conditions had been fulfilled.

### Completion

Completion of the Loan Capitalisation shall take place within ten Business Days after the day on which the last Loan Capitalisation Condition is fulfilled (or such other date as the Company and the Creditor may agree in writing).

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## LETTER FROM THE BOARD

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### **CPS Specific Mandate**

The CPS and the CPS Conversion Shares (upon conversion) will be issued under the CPS Specific Mandate to be obtained from the Independent Shareholders at the SGM.

### **Ranking**

The CPS shall rank *pari passu* to any and all current or future preferred equity securities of the Company. The CPS Conversion Shares will, when issued and allotted, rank *pari passu* in all respects among themselves and with all other fully paid ordinary Shares in issue.

The ordinary Shares of the Company are listed and traded on the Stock Exchange. None of the Shares are listed, or dealt in, on any other stock exchange, nor is any listing or permission to deal in the Shares being or proposed to be sought on any other stock exchange.

### **Listing**

No application will be made for the listing of the CPS on the Stock Exchange or any other stock exchange.

Application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the CPS Conversion Shares that may be allotted and issued upon the exercise of the conversion rights attaching to the CPS.

### **Information relating to the Creditor and Mr. Chen**

The Creditor is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the entire issued share capital of the Creditor was legally and beneficially owned by Mr. Chen, an executive Director, the chairman and the chief executive officer of the Company and a substantial Shareholder holding, through himself and the Creditor, an aggregate of 227,198,674 Shares representing approximately 24.08% of the total issued share capital of the Company as at the Latest Practicable Date. Mr. Chen is also the sole director of the Creditor.

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## LETTER FROM THE BOARD

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Mr. Chen, aged 57, graduated from Fujian Radio and Television University in 1988 with a diploma in financial economics and is a qualified accountant as conferred by the Ministry of Finance of the PRC. Mr. Chen was a cadre of the Fuzhou Minhou Tax Bureau from 1982 to 1989, deputy section chief of the Fuzhou Economic and Technology Development Area Tax Bureau from 1989 to 1993, and subsequently the section chief from 1993 to 2002. He joined the Group in 2003 and pioneered the distinctive business model of cooperating with newspaper partners to provide integrated print media services to advertisers, undertook the main decision-making role in the management of the Group's overall operations and oversaw the strategic development of the Group. He was appointed as the chairman, chief executive officer and an executive Director of the Company on 9 December 2009, resigned as the chief executive officer of the Company on 29 January 2016 and resigned as the chairman of the Board on 25 February 2016. Mr. Chen was subsequently re-appointed as the chairman and chief executive officer of the Company on 9 October 2019. Mr. Chen has accumulated more than ten years of relevant experience from developing the business of the Group and possesses a deep understanding of the PRC printed media and advertising industries. Mr. Chen is the brother of Ms. Chen Min, a non-executive Director.

### **Information regarding the Creditor's Loan**

To assist the Company in overcoming its financial pressure due to the difficult business environment of printed media market, the Creditor has been providing financial assistance to the Company since 2018. As disclosed in the Company's announcements dated 24 January and 23 April 2019, the Company issued 3-years, 3% per annum convertible bonds in the principal amount of RMB215,750,000 to the Creditor, carrying the right to convert into Shares at the conversion price of HK\$0.24 per Share (the "2019 CB"). As disclosed in the annual report of the Company for the year ended 31 December 2019, the gross and net proceeds from the issue of the 2019 CB were approximately HK\$250 million and HK\$245 million, respectively. The net proceeds from the issue of the 2019 CB were fully utilised as to: (a) approximately HK\$104 million for repaying the principal and accrued interest on the HK\$100 million loan facility previously granted by the Creditor; (b) approximately HK\$107.1 million for the redemption of the 3-year maturity, 5.5% per annum promissory notes then issued and outstanding by the Company; and (c) approximately HK\$33.9 million for the Group's general expenses such as salaries, rental expenses and professional fees.

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## LETTER FROM THE BOARD

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The 2019 CB lapsed in April 2022, with outstanding balance owed to the Creditor of RMB187,309,725 on maturity. On 22 April 2022, the Creditor entered into the Creditor's Loan Agreement with the Company, under which the Creditor agreed to continue to provide the Creditor's Loan to the Company for a period of two years at the interest rate of 3% per annum, subject to typical event of default provisions. As the provision of the Creditor's Loan is not secured by the assets of the Company or its subsidiaries, the Board (including all independent non-executive Directors but excluding Mr. Chen Zhi and Ms. Chen Min who abstained from voting at the Board meeting due to their material interest in the Creditor's Loan) was of the view that the provision of the Creditor's Loan by the Creditor to the Company was conducted on normal commercial terms or better so far as the Company is concerned. Under Rule 14A.90 of the Listing Rules, the Creditor's Loan was fully exempted from all disclosure, annual review, circular and shareholders' approval requirements.

### **Reasons for and benefits of the Loan Capitalisation**

As disclosed in the annual report of the Company for the year ended 31 December 2021 (the "**Annual Report 2021**"), the Group reported a net loss of RMB188,864,000 and had a net cash outflow from operating activities of RMB5,427,000 during the year ended 31 December 2021. As at 31 December 2021, the Group's current liabilities exceeded its current assets by RMB213,244,000 and the Group had a deficit in equity attributable to owners of the Company of RMB125,626,000. As at 31 December 2021, the Group's current borrowings amounted to RMB187,706,000 in total, including convertible bonds of RMB181,356,000 owed to the Creditor (which have already lapsed in April 2022 subsequent to the year end date and have become the Creditor's Loan) and bank borrowings of RMB6,350,000 in the PRC, while it had cash and cash equivalents of approximately RMB8,851,000 only. Together with other matters disclosed in the Annual Report 2021 including overdue bank borrowings and COVID-19, the above conditions indicate the existence of material uncertainties which may cast significant doubt about the ability of the Group to continue as a going concern. As disclosed in the Company's announcement dated 31 August 2022 of its unaudited interim results for the six months ended 30 June 2022 ("**1H2022**"), the Group reported a net loss attributable to the owners of the Company of approximately RMB27,044,000 during 1H2022, and net current liabilities of approximately RMB38,892,000, a deficit in equity attributable to owners of the Company of approximately RMB149,671,000 and cash and cash equivalents of only RMB3,052,000 as at 30 June 2022. In view of the above, the Group has an imminent need to strengthen the financial position of the Group to prepare for its future development.

In view of the net current liabilities of the Group as at 31 December 2021 and 30 June 2022, the loss-making situation of the Group since 2012 due to the downturn of traditional printed media business, and the debts and liabilities which shall become due imminently, the Group has an imminent need to strengthen the financial position of the Group to prepare for its future development. The Directors are of the view that the Loan Capitalisation can strengthen the financial position of the Group, ease the liquidity pressure of the Group caused by the current liabilities and enable the Group to alleviate the uncertainty on going concern, thereby putting the Group in a better position to identify suitable investment or growth opportunities with the view to generate positive cash flow and further strengthen its financial position in the longer run.

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## LETTER FROM THE BOARD

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The Company has been in negotiation with the Creditor since January 2022 with the view to extending the maturity of the 2019 CB to improve the financial position of the Company and demonstrate support of the Creditor to the Company. The negotiations were temporarily stopped between February and mid-May 2022 to give way to the blackout period, which ran in parallel with the audit period. Because of the unexpected delay of the completion of audit which took longer than normal due to COVID-19 situation in the PRC, the original plan for the Company to extend or re-finance the 2019 CB before its maturity in April 2022 was postponed, and the negotiation with the Creditor re-commenced in late May 2022.

The Board has considered various fund raising methods to improve the financing position of the Group including long term bank borrowings, placement of Shares to independent third parties, rights issue and open offer. In respect of long-term bank borrowings of meaningful loan size, the Company was given to understand that commercial banks generally requested for the provision of real estate properties as collateral to fortify the loan, which the Company was unable to give. As regards equity fund raising exercises (such as placement of Shares to independent third parties, rights issue and/or open offer), the Board considered that the possibilities of raising a sizable amount of fund is low given that the share price of the Company was trading at a consistent low price of about HK\$0.10 between June 2022 and early July 2022 and securities brokerage firms are unlikely to accept a hard underwriting on the Shares of the Company taking into account the unsatisfactory financial position of the Group as at 31 December 2021 and the poor financial market sentiment in the first half of 2022.

In determining the structure of the Loan Capitalisation, the Company and the Creditor have taken into account the existing shareholding level of the Creditor and its associates. As at the Latest Practicable Date, the Creditor and its beneficial owner (i.e. Mr. Chen) held an aggregate of 227,198,674 Shares, representing approximately 24.08% of the total issued share capital of the Company. If the Company issued 383,636,331 Shares at the subscription price of HK\$0.57 per Share for the settlement of the entire outstanding balance of the Creditor's Loan, the shareholding of the Creditor and its associates in the Company would increase from approximately 24.08% to approximately 46.03% and accordingly, would be required to make mandatory cash offer to acquire all the issued Shares pursuant to Rule 26.1 of the Takeovers Code. Given that the Creditor is not prepared to make general offer for all issued Shares as a result of the Loan Capitalisation, the Company and the Creditor resolved to settle the entire outstanding balance of the Creditor's Loan (including principal and interest) by way of issue of non-voting CPS to the Creditor, which also serve the purpose of reducing the current liabilities of the Group and therefore improving the financial position of the Group. Assuming no other changes to the Company's equity, the Loan Capitalisation is expected to have the effect of restoring the Company's equity attributable to owners of the Company from a total deficit of RMB149,671,000 as at 30 June 2022 to positive RMB38,388,000 in total.

The terms of the Loan Capitalisation (including the issue price and the terms of the CPS) were determined based on arm's length negotiations between the Company and the Creditor with reference to the prevailing market price of the Shares as quoted on the Stock Exchange in mid-July 2022 when the share price of the Company eventually exceeded the HK\$0.10 level.

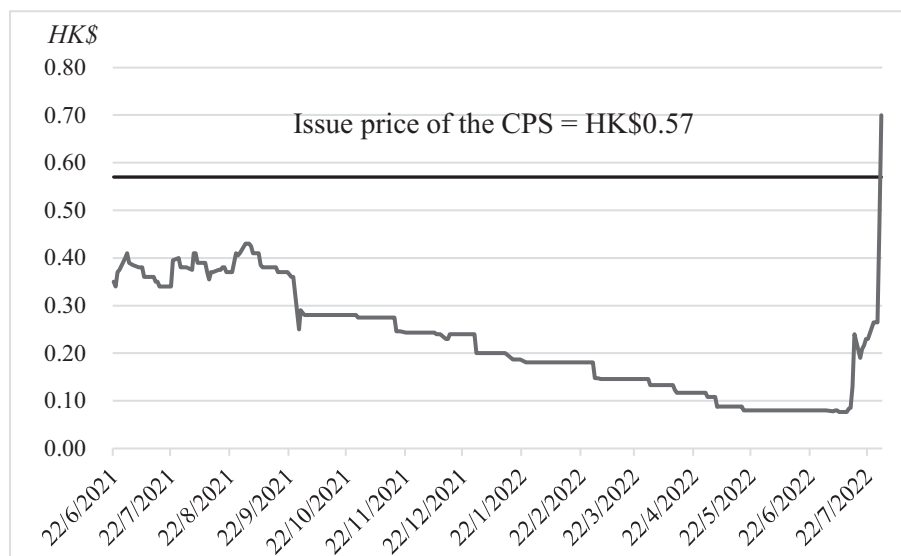


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## LETTER FROM THE BOARD

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The issue price of the CPS was determined after arm's length negotiation between the Company and the Creditor with reference to the then recent market price of the Shares, the middle to long range (i.e. 50 days and 250 days) average closing prices of the Shares and the net liabilities position per Share. The chart below depicts the closing price of the Shares during the period (the “**Review Period**”) commencing from 22 June 2021 (being the 249 trading days preceding to the Last Trading Day (as defined below)) to 29 July 2022 (being the last trading day immediately preceding the signing date of the Loan Capitalisation Agreement, the “**Last Trading Day**”):



The Directors noted that during the period from 22 June 2021 to 27 July 2022, the trading price of the Shares fluctuated within a range from HK\$0.077 per Share to HK\$0.430 per Share and closed at HK\$0.265 per Share on 27 July 2022. The closing price of the Shares then surged to HK\$0.470 per Share on 28 July 2022 and further to HK\$0.700 per Share on 29 July 2022 (i.e. the Last Trading Day), representing a significant increase of approximately 77.4% and approximately 164.2%, respectively, as compared to the closing price of the Shares on 27 July 2022. The Directors were not aware of any reasons leading to the sudden surge of the trading price of the Shares. In view of the unusual movement of the Share price, the Directors considered that it is not reasonable and fair to simply make reference to the closing price of the Shares on the Last Trading Day for the determination of the issue price of the CPS and instead, should also take into account the middle to long range (i.e. 50 days and 250 days) average closing prices of the Shares in order to counterbalance the impact triggered by the sudden surge of the Share price. Furthermore, the Company noticed that during the three years immediately preceding the date of signing of the Loan Capitalisation Agreement, there was only 1 trading day (i.e. the Last Trading Day) on which the Shares had traded above HK\$0.57 and closed at HK\$0.70. Having considered the fact that the issue price of the CPS of HK\$0.57 per Share represents a substantial premium of approximately 45.04%, 341.86% and 144.64% over the 5 trading days, 50 trading days and 250 trading days average closing price of the Shares, and by comparing with the net liabilities of HK\$0.147 per Share as at 31 December 2021, the Directors considered that the issue price of the CPS was fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The CPS are proposed to be issued by the Company in full and final settlement of the entire outstanding balance of the Creditor's Loan (including principal and interest) as at the date of the Loan Capitalisation Completion. The total outstanding balance of the Creditor's Loan owed by the Group to the Creditor as at 30 July 2022 amounted to RMB188,058,530 (equivalent to approximately HK\$218,672,709). Under the terms of the Loan Capitalisation Agreement, if the Loan Capitalisation proceeds to completion, the Creditor will waive all interest accruing on the Creditor's Loan between 31 July 2022 and the date of the completion of the Loan Capitalisation. Therefore, no further interest cost will be incurred by the Company under the Creditor's Loan Agreement, if the Loan Capitalisation proceeds to completion. Barring unforeseen circumstances and assuming there are no other adverse changes to the financial position of the Company, it is currently expected that the Loan Capitalisation can substantially reduce the net liabilities position and restore the Company from net liabilities to positive net asset position.

The issue of CPS will have no immediate dilution effect on the voting right of the existing Shareholders, because the CPS do not carry any voting right. However, the shareholding of the existing public Shareholders will inevitably be diluted from approximately 75.92% of the issued share capital of the Company as at the Latest Practicable Date to approximately 53.97% of the issued share capital of the Company upon the exercise in full of the conversion rights attaching to the 383,636,331 CPS and assuming there is no other change in the issued share capital of the Company.

The CPS are equity in nature and are expected to be accounted as equity in the financial statements of the Company.

In the light of the reasons explained above, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after considering the advice from the Independent Financial Adviser) are of the view that the terms of Loan Capitalisation (including the issue price and the terms of the CPS as modified by the Supplemental Agreement) are fair and reasonable, on normal commercial terms or better from the Company's perspective, and the entering into of the Loan Capitalisation Agreement and the Supplemental Agreement is in the interests of the Company and its Shareholders as a whole.

Mr. Chen (an executive Director, the chairman and chief executive officer of the Company) and Ms. Chen Min (a non-executive Director and sister of Mr. Chen) abstained from voting on the Board level regarding the entering into of the Loan Capitalisation Agreement and the Supplemental Agreement. Save for Mr. Chen and Ms. Chen Min, no other Director regarded himself to have a material interest in the Loan Capitalisation which requires him to disclose his interest and/or to abstain from voting on the Board level regarding the entering into of the Loan Capitalisation Agreement and the Supplemental Agreement.

The net issue price of the CPS is approximately HK\$0.56 per CPS. The aggregate nominal value of the 383,636,331 CPS proposed to be issued under the Loan Capitalisation (or the 383,636,331 CPS Conversion Shares to be issued upon conversion of the CPS on the basis of the initial Conversion Ratio) is HK\$3,836,363.31.

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## LETTER FROM THE BOARD

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### EQUITY FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST TWELVE MONTHS

The Company had not conducted any other equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date. The issue of the CPS Conversion Shares will result in a theoretical dilution effect (when aggregated with all rights issue, open offer and specific mandate placings within a 12-month period) of approximately 5.37%, which is below the 25% threshold as specified under Rule 7.27B of the Listing Rules.

### EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The table below illustrates the shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the issue of the CPS Conversion Shares upon full exercise of conversion rights attaching to the CPS assuming that there is no other change in the issued share capital of the Company:

	As at the Latest Practicable Date		Immediately after the issue of the CPS Conversion Shares upon full exercise of conversion rights attaching to the CPS	
	No. of Shares	Approximate %	No. of Shares	Approximate %
<b>Mr. Chen and his associate</b>				
Mr. Chen	1,758,164	0.19	1,758,164	0.13
The Creditor <i>(Note 1)</i>	<u>225,440,510</u>	<u>23.90</u>	<u>609,076,841</u>	<u>45.90</u>
Sub-total	227,198,674	24.08	610,835,005	46.03
Public Shareholders	<u>716,240,162</u>	<u>75.92</u>	<u>716,240,162</u>	<u>53.97</u>
Total:	<u><u>943,438,836</u></u>	<u><u>100.00</u></u>	<u><u>1,327,075,167</u></u>	<u><u>100.00</u></u>

*Notes:*

1. The shareholding percentage for the Creditor is for illustration only. Under the terms of the CPS, the Creditor is unable to convert CPS to an extent which would trigger any mandatory general offer obligations under the Takeovers Code.
2. Certain percentage figures in the above table are subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

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## LETTER FROM THE BOARD

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### PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The existing authorised share capital of the Company is HK\$1,000,000,000 divided into 100,000,000,000 Shares. To facilitate the issuance of the CPS, it was proposed that the authorised share capital of the Company be increased to HK\$1,100,000,000, by the creation of additional 10,000,000,000 CPS of par value of HK\$0.01 each, with such rights and restrictions (i.e., the CPS Terms) as determined by the Directors pursuant to Bye-law 8 of the Company's Bye-laws and as set out in Appendix I to this circular. The Directors consider that the Increase in Authorised Share Capital is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM. No Shareholder will be required to abstain from voting on the resolution in respect of the Increase in Authorised Share Capital at the SGM.

### IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, the entire issued share capital of the Creditor was legally and beneficially owned by Mr. Chen, an executive Director, the chairman and the chief executive officer of the Company and a substantial Shareholder holding, through himself and the Creditor, an aggregate of 227,198,674 Shares representing approximately 24.08% of the total issued share capital of the Company. Accordingly, the entering into of the Loan Capitalisation Agreement (as modified by the Supplemental Agreement) constitutes a connected transaction for the Company under the Listing Rules and is subject to the announcement, reporting and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

### SGM

The SGM will be held for the Shareholders to consider and, if thought fit, approve the ordinary resolutions in respect of, among other things, the Loan Capitalisation Agreement and the transactions contemplated thereunder, including the issue of the CPS and the allotment and issue of the CPS Conversion Shares (upon conversion) under the CPS Specific Mandate and the Increase in Authorised Share Capital. In accordance with the Listing Rules, the Creditor and its associates (including Mr. Chen) will be required to abstain from voting on the resolution(s) in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder and the grant of the CPS Specific Mandate at the SGM.

The SGM will be held on Friday, 4 November 2022 at 11:00 a.m. at 6/F, Hua Fu Mansion, No. 121 Gutian Road, Gulou District, Fuzhou, Fujian Province, the PRC. A notice of the SGM is set out on pages SGM-1 to SGM-4 of this circular.

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## LETTER FROM THE BOARD

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A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the SGM or any adjourned meeting thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions proposed at the SGM shall be voted by poll.

The register of members of the Company will be closed from Tuesday, 1 November 2022 to Friday, 4 November 2022, both days inclusive, during which no transfer of shares will be registered. To determine eligibility to attend and vote at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Monday, 31 October 2022.

### WARNING

**Completion of the Loan Capitalisation is subject to the terms and conditions under the Loan Capitalisation Agreement, and may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.**

### RECOMMENDATION

The Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that although the entering into of the Loan Capitalisation Agreement is not in the ordinary and usual course of business of the Company, the terms of the Loan Capitalisation (including the issue price and the terms of the CPS) are on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote for the resolution(s) to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate at the SGM.

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## LETTER FROM THE BOARD

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The Directors also consider that the Increase in Authorised Share Capital is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote for the resolution to approve the Increase in Authorised Share Capital at the SGM.

You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser before deciding how to vote on the resolution(s) relating to the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate to be proposed at the SGM.

### **ADDITIONAL INFORMATION**

The Loan Capitalisation does not have any relationship with the acquisition of the entire issued share capital and shareholders' loans of Ideal Class Holdings Limited (details of which were disclosed in the announcement of the Company dated 4 August 2022).

Your attention is also drawn to the additional information set out in the appendices to this circular and the notice of the SGM as set out on pages SGM-1 to SGM-4, which form part of this circular.

Yours faithfully,  
For and on behalf of  
**ShiFang Holding Limited**  
**Chen Zhi**  
*Chairman & Chief Executive Officer*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**SHIFANG HOLDING LIMITED**

**十方控股有限公司**

*(incorporated in the Cayman Islands and re-domiciled and continued in Bermuda with limited liability)*

**(Stock code: 1831)**

12 October 2022

*To the Independent Shareholders*

Dear Sir or Madam,

**LOAN CAPITALISATION INVOLVING THE ISSUE OF  
CONVERTIBLE PREFERENCE SHARES CONSTITUTING  
CONNECTED TRANSACTION**

We have been appointed to form an independent board committee to consider and advise you on the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate, details of which are set out in the circular issued by the Company to the Shareholders dated 12 October 2022 (the “Circular”), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser set out on pages 6 to 19 and pages 21 to 44 of the Circular, respectively, and the additional information set out in the appendices to the Circular.

Having taken into account the background of and reasons for the Loan Capitalisation and having taken into consideration of the advice of the Independent Financial Adviser in relation thereto as set out on pages 21 to 44 of the Circular, we concur with the view of the Independent Financial Adviser and consider that although the entering into of the Loan Capitalisation Agreement is not in the ordinary and usual course of business of the Company, the terms of the Loan Capitalisation (including the issue price and the terms of the CPS) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Zhou Chang Ren**  
*Independent non-executive  
Director*

**Mr. Wong Heung Ming, Henry**  
*Independent non-executive  
Director*

**Mr. Cai Jian Quan**  
*Independent non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter from Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders regarding the Connected Transaction for the purpose of inclusion in this circular.*



**紅日資本有限公司**  
**RED SUN CAPITAL LIMITED**

Room 310, 3/F.,  
China Insurance Group Building,  
141 Des Voeux Road Central,  
Hong Kong

Tel: (852) 2857 9208  
Fax: (852) 2857 9100

12 October 2022

*To: The Independent Board Committee and the Independent Shareholders of ShiFang Holding Limited*

Dear Sir/Madam,

### **CONNECTED TRANSACTION LOAN CAPITALISATION INVOLVING THE ISSUE OF CONVERTIBLE PREFERENCE SHARES**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Loan Capitalisation Agreement, details of which are contained in the letter from the Board (the “**Letter from the Board**”) as set out in the circular of the Group dated 12 October 2022 (the “**Circular**”). Unless otherwise specified, terms defined in the Circular have the same meanings in this letter.

Reference is made to the announcements of the Company dated 4 August 2022 and 30 September 2022 in relation to, among others, the Loan Capitalisation and the Supplemental Agreement.

On 30 July 2022, the Company entered into the Loan Capitalisation Agreement with the Creditor pursuant to which the Company conditionally agreed to issue, and the Creditor conditionally agreed to subscribe for, 383,636,331 CPS at the subscription price of HK\$0.57 per CPS (the “**Subscription Price**”), in full and final settlement of the entire outstanding balance of the Creditor’s Loan (including principal and interest) as at the date of the Loan Capitalisation Completion. The total outstanding balance of the Creditor’s Loan owed by the Group to the Creditor as at 30 July 2022 amounted to RMB188,058,530 (equivalent to approximately HK\$218,672,709).



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On 30 September 2022, the Company entered into the Supplemental Agreement with the Creditor, pursuant to which the parties mutually agreed to amend the CPS Terms, such that the CPS no longer carry any contractual obligation of the Company to pay any fixed interest of 3% per annum to the CPS Holders. Instead, each CPS shall confer on the holder(s) the right to receive dividends *pari passu* with the holders of the ordinary Shares on the basis of the number of CPS Conversion Shares into which each CPS may be converted and on an as-converted basis.

Based on the initial Conversion Ratio of one CPS into one Share and assuming there is no other change in the issued share capital of the Company, the 383,636,331 CPS Conversion Shares to be allotted and issued by the Company upon the exercise in full of the conversion rights attaching to the 383,636,331 CPS represent: (a) approximately 40.66% of the existing issued share capital of the Company; and (b) approximately 28.91% of the issued share capital of the Company as enlarged by the issue of 383,636,331 CPS Conversion Shares.

### THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of seven Directors, namely Mr. Chen Zhi (Chairman and Chief Executive Officer) and Mr. Yu Shi Quan as executive Directors, Mr. Chen Wei Dong and Ms. Chen Min as non-executive Directors, and Mr. Zhou Chang Ren, Mr. Wong Heung Ming, Henry and Mr. Cai Jian Quan as independent non-executive Directors.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Zhou Chang Ren, Mr. Wong Heung Ming, Henry and Mr. Cai Jian Quan, has been established to advise the Independent Shareholders regarding the terms of the Loan Capitalisation Agreement and the transaction contemplated thereunder (including the issue of the CPS) and the gain of the CPS Specific Mandate. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the entire issued share capital of the Creditor was legally and beneficially owned by Mr. Chen, an executive Director, the chairman and the chief executive officer of the Company and a substantial Shareholder holding, through himself and the Creditor, an aggregate of 227,198,674 Shares representing approximately 24.08% of the total issued share capital of the Company. Accordingly, the entering into of the Loan Capitalisation Agreement (as modified by the Supplemental Agreement) constitutes a connected transaction for the Company under the Listing Rules and is subject to the announcement, reporting and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company or any relevant parties in connection with the Loan Capitalisation Agreement. Therefore, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders.

In the last two years, we have not acted as independent financial adviser to independent board committee and/or independent shareholders of the Company for any transactions.

Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser and the engagement as stated above as the independent financial adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

### BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular. In addition, pursuant to the relevant Listing Rules, we have taken reasonable steps to enable ourselves to reach an informed view so as to provide a reasonable basis for our opinion, which included, among others (i) obtained the Loan Capitalisation Agreement and the Supplemental Agreement and reviewed the terms thereunder; (ii) the announcements of the Company dated 4 August 2022 and 30 September 2022; (iii) reviewed the contents as set out in the Circular, including the reasons for and benefits of the Loan Capitalisation; (iv) reviewed the information as set out in the 2021 Annual Report and the 2022 Interim Report (defined hereafter) for our analysis on the background and historical financial performance of the Group; (v) conducted market research on the share price performance against the Subscription Price during the Review Period and the trading liquidity of the Shares, respectively; (vi) obtained sampled transactions for the purpose of our fairness and reasonableness analysis of the terms of the CPS; and (vii) conducted our analysis on the Subscription Price and the preferential dividend rate.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group, and, where applicable, their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the connected transaction contemplated under the Loan Capitalisation involving the issue of CPS, 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.

### **PRINCIPAL FACTORS TAKEN INTO CONSIDERATION FOR THE LOAN CAPITALISATION AGREEMENT**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

#### **1. Background information of the Group**

The Company is an investment holding company. Its subsidiaries are principally engaged in the business of publishing and advertising (the “**Publishing and Advertising Businesses**”) and sales of agricultural products in the PRC. The Group has been focusing on restructuring its publishing and advertising businesses by consolidating with cultural media and film media businesses in PRC and diversifying into tourism and integrated developments.

The following sets out the financial information of the Group as extracted and summarised from the published annual report for the year ended 31 December 2021 (the “**2021 Annual Report**”) and the interim report for the six months ended 30 June 2022 (the “**2022 Interim Report**”).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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***Summary of the consolidated statement of comprehensive income of the Group extracted from the 2021 Annual Report and 2022 Interim Report***

	For the six months ended		For the year ended	
	30 June		31 December	
	2022	2021	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	88,505	85,591	265,158	126,384
Gross profit	819	5,397	21,729	13,870
Loss before income tax	(28,886)	(201,180)	(233,216)	(93,166)
Loss for the year/period	(28,109)	(157,982)	(188,864)	(74,539)

***Financial performance for the six months ended 30 June 2021 (the “6M2021”) and the six months ended 30 June 2022 (the “6M2022”)***

The revenue of the Group increased from approximately RMB85.6 million for 6M2021 to approximately RMB88.5 million for 6M2022, representing an increase of approximately RMB2.9 million or 3.4%. Such increase was attributable to the increase in sales of agricultural products from approximately RMB28.0 million for 6M2021 to approximately RMB48.6 million for 6M2022, representing an increase of approximately RMB20.6 million or 73.6% which net-off with the decrease in revenue from marketing and consulting services from approximately RMB49.6 million for 6M2021 to approximately RMB32.5 million for 6M2022, representing a decrease of approximately RMB17.1 million or 34.5%.

The loss for the period of the Group decreased from approximately RMB158.0 million for 6M2021 to approximately RMB28.1 million for 6M2022, representing a decrease of loss of approximately 82.2%. Such decrease was mainly attributable to the decrease in provision for impairment on goodwill and other intangible assets from approximately RMB157.2 million for 6M2021 to approximately RMB3.2 million for 6M2022, representing a decrease of approximately RMB154.1 million or 98.0%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### ***Financial performance for the year ended 31 December 2020 (the “FY2020”) and the year ended 31 December 2021 (the “FY2021”)***

The revenue of the Group increased from approximately RMB126.4 million for FY2020 to approximately RMB265.2 million for FY2021, representing an increase of approximately RMB138.8 million or 109.8%. Such increase was mainly attributed to the increased revenue from the sales of agricultural products.

The loss for the year of the Group increased from approximately RMB74.5 million for FY2020 to approximately RMB188.9 million for FY2021, representing an increase of loss approximately 153.4%. Such increase was mainly attributed to the increase in one-off provision for impairment on goodwill and other intangible assets, property, plant and equipment and right-of-use assets for FY2021.

### ***Summary of the consolidated statement of financial position of the Group extracted from the 2021 Annual Report and 2022 Interim Report***

	<b>As at</b>	<b>As at 31 December</b>	
	<b>30 June</b>	<b>2021</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)
Current assets	129,458	139,239	67,943
Total assets	219,351	240,045	433,245
Current liabilities	(168,350)	(352,483)	(100,671)
Total liabilities	(363,981)	(359,565)	(371,513)
Net current liabilities	(38,892)	(213,244)	(332,574)
Net (deficit)/equity	(144,630)	(119,520)	61,732
Cash and cash equivalents	3,052	8,851	12,889

### ***Financial position as at 30 June 2022***

As at 30 June 2022, the total assets of the Group was approximately RMB219.4 million and the total liabilities of the Group was approximately RMB364.0 million.

The Group's current assets of approximately RMB129.5 million as at 30 June 2022, mainly included (i) the properties held for sale of approximately RMB22.8 million; (ii) the prepayments, deposits and other receivables of approximately RMB62.1 million; (iii) the financial assets at fair value through profit or loss of approximately RMB7.9 million; (iv) the net trade receivables of approximately RMB3.3 million; and (v) the cash and cash equivalents of approximately RMB3.1 million.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at 30 June 2022, the Group recorded net current liabilities of approximately RMB38.9 million and net deficit of approximately RMB144.6 million, respectively. The total liabilities of the Group as at 30 June 2022 amounted to approximately RMB364.0 million.

As at 30 June 2022, the gearing ratio of the Group based on net debt to the shareholder's equity (i.e. calculated by the total liabilities of the Group minus cash and cash equivalents of the Group, then divided by the total equity of the Group) was not applicable due to the net deficit of the Group.

### ***Financial position as at 31 December 2020 and 31 December 2021***

As at 31 December 2021, (i) the total assets of the Group was approximately RMB240.0 million, representing a decrease of 44.6% as compared to that of approximately RMB433.2 million as at 31 December 2020; (ii) the net deficit of the Group was approximately RMB119.5 million, as compared to that the net equity of approximately RMB61.7 million as at 31 December 2020; and (iii) the cash and cash equivalents of the Group was approximately RMB8.9 million, representing a decrease of 31.3% as compared to that of approximately RMB12.9 million as at 31 December 2020.

As at 31 December 2021, the Group recorded net current liabilities of approximately RMB213.2 million and net deficit of approximately RMB119.5 million, respectively. The total liabilities of the Group as at 31 December 2021 amounted to approximately RMB359.6 million.

As at 31 December 2021, the gearing ratio of the Group based on net debt to the shareholder's equity (i.e. calculated by the total liabilities of the Group minus cash and cash equivalents of the Group, then divided by the total equity of the Group) was not applicable due to the net deficit of the Group, meanwhile as compared to approximately 5.8 times as at 31 December 2020.

## **2. Reasons for and benefits of the Loan Capitalisation**

To assist the Company in overcoming its financial pressure due to the difficult business environment of printed media market, the Creditor has been providing financial assistance to the Company since 2018. In 2019, the Company issued 3-years, 3% per annum convertible bonds in the principal amount of RMB215,750,000 to the Creditor, carrying the right to convert into Shares at the conversion price of HK\$0.24 per Share, and the such convertible bonds lapsed in April 2022, with outstanding balance owed to the Creditor of RMB187,309,725 on maturity. On 22 April 2022, the Creditor entered into the Creditor's Loan Agreement with the Company, under which the Creditor agreed to continue to provide the Creditor's Loan to the Company for a period of two years at the interest rate of 3% per annum, subject to typical event of default provisions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As disclosed in the Annual Report 2021, the Group reported a loss for the year of RMB188.9 million and had a net cash used in operating activities of RMB5.4 million during the year ended 31 December 2021. As at 31 December 2021, the net current liabilities of the Group was approximately RMB213.2 million and the Group had a deficit in equity attributable to owners of the Company of approximately RMB125.6 million. As at 31 December 2021, the Group's current borrowings amounted to RMB187.7 million in total, including convertible bonds of RMB181.4 million owed to the Creditor (which have already lapsed in April 2022 subsequent to the year ended date and have become the Creditor's Loan) and bank borrowings of RMB6.4 million in the PRC, while it had cash and cash equivalents of approximately RMB8.9 million only. Together with other matters disclosed in the Annual Report 2021 including overdue bank borrowings and COVID-19, the above conditions indicate the existence of material uncertainties which may cast significant doubt about the ability of the Group to continue as a going concern. As disclosed in the 2022 Interim Report, the Group reported a net loss attributable to owners of the Company of approximately RMB27.0 million during 6M2022, and net current liabilities of approximately RMB38.9 million, a deficit in equity attributable to owners of the Company of approximately RMB149.7 million and cash and cash equivalents of approximately only RMB3.1 million as at 30 June 2022. In view of the above, the Group has an imminent need to strengthen the financial position of the Group to prepare for its further development.

In view of the net current liabilities of the Group as at 31 December 2021 and 30 June 2022, the loss-making situation of the Group since 2012 due to the downturn of traditional printed media business, and the debts and liabilities which shall become due imminently, the Group has an imminent need to strengthen the financial position of the Group to prepare for its future development. The Directors are of the view that the Loan Capitalisation can strengthen the financial position of the Group, ease the liquidity pressure of the Group caused by the current liabilities and enable the Group to alleviate the uncertainty on going concern, thereby putting the Group in a better position to identify suitable investment or growth opportunities with the view to generate positive cash flow and further strengthen its financial position in the longer run.

As set out in the 2022 Interim Report, we noted that the cash and cash equivalents of the Group amounted to approximately RMB3.1 million as at 30 June 2022 which was not sufficient for the settlement of the entire outstanding balance of the Creditor's Loan. The Board has considered various fund-raising methods to improve the financial position of the Group including long term bank borrowings, placement of Shares to independent third parties, rights issue and open offer.

In respect of long-term bank borrowings of meaningful loan size, the Company was given to understand that commercial banks generally requested for the provision of real estate properties as collateral to fortify the loan, which the Company was unable to give.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The ability for a company to obtain bank borrowings generally and largely depends on the company's profitability, financial position and the then prevailing market condition and may be subject to lengthy due diligence and internal risk assessment by and negotiations with bank and usually requires pledge of assets by the borrower. Taking into account that the Group recorded (i) loss for the year of approximately RMB74.5 million and approximately RMB188.9 million for the year ended 31 December 2020 and 2021, and approximately RMB28.1 million during 6M2022, respectively; and (ii) a total deficit of approximately RMB\$144.6 million as at 30 June 2022, the Directors are of the view and we concur that it is unlikely for the Group to (i) generate sufficient operating cash inflow from its daily operation in order to alleviate its current financial burden; and (ii) obtain additional mid-term or long-term bank loans of meaningful loan size (i.e. approximately HK\$218.7 million) timely with favourable terms due to the reasons as discussed above.

As regards equity fund raising exercises (such as placement of Shares to independent third parties, rights issue and/or open offer), the Board considered that the possibilities of raising a sizable amount of fund is low given that the share price of the Company was trading at a consistent low price of about HK\$0.10 between June 2022 and early July 2022 and securities brokerage firms are unlikely to accept a hard underwriting on the Shares of the Company taking into account the unsatisfactory financial position of the Group as at 30 June 2022 and the poor financial market sentiment in the first half of 2022.

In light of the abovementioned financial performance of the Group for the recent financial years/period and the thin liquidity of the Shares set out in the section headed "4. Evaluation of the terms of the CPS – (b) Trading liquidity of the Shares" in this letter, the Directors are of the view and we concur that it is unlikely for the Group to raise the necessary funds by way of placing or rights issue or open offer of new Shares without a deep discount to the prevailing market price of the Shares so as to attract subscription by the potential investors or Shareholders.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In determining the structure of the Loan Capitalisation, the Company and the Creditor have taken into account the existing shareholding level of the Creditor and its associates. As at the Latest Practicable Date, the Creditor and its beneficial owner (i.e. Mr. Chen) held an aggregate of 227,198,674 Shares, representing approximately 24.08% of the total issued share capital of the Company. If the Company issued 383,636,331 Shares at the Subscription Price of HK\$0.57 per Share for the settlement of the entire outstanding balance of the Creditor's Loan, the shareholding of the Creditor and its associates in the Company would increase from approximately 24.08% to approximately 46.03% and accordingly, would be required to make mandatory cash offer to acquire all the issued Shares pursuant to Rule 26.1 of the Takeovers Code. Given that the Creditor is not prepared to make general offer for all issued Shares as a result of the Loan Capitalisation, the Company and the Creditor resolved to settle the entire outstanding balance of the Creditor's Loan (including principal and interest) by way of issue of non-voting CPS to the Creditor, which also serve the purpose of reducing the current liabilities of the Group and therefore improving the financial position of the Group. Assuming no other changes to the Company's equity, the Loan Capitalisation is expected to have the effect of restoring the Company's equity attributable to owners of the Company from a total deficit of approximately RMB149.7 million as at 30 June 2022 to positive of approximately RMB38.4 million in total.

The terms of the Loan Capitalisation (including the issue price and the terms of the CPS) were determined based on arm's length negotiations between Company and the Creditor with reference to the prevailing market price of the Shares as quoted on the Stock Exchange in mid-July 2022 when the share price of the Company eventually exceeded the HK\$0.10 level.

The Subscription Price was determined after arm's length negotiation between the Company and the Creditor with reference to the then recent market price of the Shares, the middle to long range (i.e. 50 days and 250 days) average closing prices of the Shares and the net liabilities position per Share. The Company noticed that during the three years immediately preceding the date of the Loan Capitalisation Agreement, there was only one trading day (i.e. HK\$0.700 on 29 July 2022, being the last trading days immediately preceding the date of the Loan Capitalisation Agreement) on which the Shares had traded above HK\$0.570 and closed at HK\$0.700.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Directors noted that the trading price of the Shares fluctuated from HK\$0.077 per Share to HK\$0.430 per Share during the period from 22 June 2021 to 27 July 2022 and closed at HK\$0.265 per Share on 27 July 2022. The closing price of the Shares then surged to HK\$0.470 per Share on 28 July 2022 and further to HK\$0.700 per Share on 29 July 2022 (i.e. the Last Trading Day), representing a significant increase of approximately 77.4% and 164.2%, respectively, as compared to the closing price of the Shares on 27 July 2022. The closing price per Share increased from approximately HK\$0.47 per Share on 28 July 2022 to approximately HK\$0.70 per Share on 29 July 2022, representing an increase of approximately HK\$0.23 and 48.94%. The Directors were not aware of any reasons leading to the such sudden surge of the trading price of the Shares on the date of the Loan Capitalisation. In view of the unusual movement of the Share price within a short trading period, the Directors considered and we concur that it is not reasonable and fair to simply make reference to the closing price of the Shares on the Last Trading Day for the determination of the Subscription Price and instead, should also take into account the middle to long range (i.e. 50 days and 250 days) average closing prices of the Shares in order to counterbalance the impact triggered by the sudden surge of the Share price.

Having considered the fact that the Subscription Price of HK\$0.57 per Share represents a substantial premium of approximately 45.04%, 341.86% and 144.64% over the five trading days, 50 trading days and 250 trading days average closing price of the Shares, and by comparing with the net liabilities of HK\$0.147 per Share as at 31 December 2021, which counterbalance the impact triggered by the sudden surge of the Share price on 28 July 2022 and 29 July 2022, the Directors considered and we concur that the Subscription Price was normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The CPS are proposed to be issued by the Company in full and final settlement of the entire outstanding balance of the Creditor's Loan (including principal and interest) as at the date of the Loan Capitalisation Completion. The total outstanding balance of the Creditor's Loan owed by the Group to the Creditor as at 30 July 2022 amounted to RMB188,058,530 (equivalent to approximately HK\$218,672,709). Under the terms of the Loan Capitalisation Agreement, if the Loan Capitalisation proceeds to completion, the Creditor will waive all interest accruing on the Creditor's Loan between 31 July 2022 and the date of the completion of the Loan Capitalisation. Therefore, no further interest cost will be incurred by the Company under the Creditor's Loan Agreement, if the Loan Capitalisation proceeds to completion. Barring unforeseen circumstances and assuming there are no other adverse changes to the financial position of the Company, it is currently expected that the Loan Capitalisation can substantially reduce the net liabilities position and restore the Company from net liabilities to positive net assets position.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The issue of CPS will have no immediate dilution effect on the voting right of the existing Shareholders, because the CPS do not carry any voting right. However, the shareholding of the existing public Shareholders will inevitably be diluted from approximately 75.92% of the issued share capital of the Company as at the Latest Practicable Date to approximately 53.97% of the issued share capital of the Company upon the exercise in full of the conversion rights attaching to the 383,636,331 CPS and assuming there is no other change in the issued share capital of the Company.

As set out in the Letter from the Board, the CPS are equity in nature and are expected to be accounted as equity in the financial statements of the Company.

In the light of the reasons explained above, the Directors are of the view and we concur that the terms of Loan Capitalisation (including the Subscription Price and the terms of the CPS as modified by the Supplemental Agreement) are fair and reasonable, on normal commercial terms or better from the Company's perspective, and the entering into of the Loan Capitalisation Agreement and the Supplemental Agreement is in the interests of the Company and its Shareholders as a whole.

### **3. Principal terms of the Loan Capitalisation Agreement and the Supplemental Agreement**

Pursuant to the Loan Capitalisation Agreement, the Company conditionally agreed to issue, and the Creditor conditionally agreed to subscribe for 383,636,331 CPS at the Subscription Price of HK\$0.57 per CPS, in full and final settlement of the entire outstanding balance of the Creditor's Loan (including principal and interest) as at the date of the Loan Capitalisation Completion. The total outstanding balance of the Creditor's Loan owed by the Group to the Creditor as at 30 July 2022 amounted to RMB188,058,530 (equivalent to approximately HK\$218,672,709).

The Subscription Price of HK\$0.57 per CPS, represents:

- (i) a discount of approximately 18.57% to the closing price of HK\$0.70 per Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of signing of the Loan Capitalisation Agreement;
- (ii) a premium of approximately 45.04% over the average closing price of HK\$0.393 per Share as quoted on the Stock Exchange for the five trading days immediately preceding the date of signing of the Loan Capitalisation Agreement;
- (iii) a premium of approximately 341.86% over the average closing price of HK\$0.129 per Share as quoted on the Stock Exchange for the 50 trading days immediately preceding the date of signing of the Loan Capitalisation Agreement;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iv) a premium of approximately 144.64% over the average closing price of HK\$0.233 per Share as quoted on the Stock Exchange for the 250 trading days immediately preceding the date of signing of the Loan Capitalisation Agreement;
- (v) a premium of approximately 14.00% over the closing price of HK\$0.500 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vi) a premium over the net liabilities of HK\$0.184 per Share on the basis of the unaudited deficit in the equity attributable to owners of the Company of approximately RMB149,671,000 (equivalent to approximately HK\$174,036,047) as at 30 June 2022 and 943,438,836 Shares currently in issue.

As stated in the Letter from the Board, the Subscription price was determined based on arm's length negotiation between the Company and the Creditor with reference to the middle to long range (i.e. 50 days and 250 days) average closing prices of the Shares and the net liabilities position per Share.

Based on the initial Conversion Ratio of one CPS into one Share and assuming there is no other change in the issued share capital of the Company, assuming all the CPS are converted in full, a total of 383,636,331 CPS Conversion Shares will be issued, which represent:

- (i) approximately 40.66% of the existing issued share capital of the Company; and
- (ii) approximately 28.91% of the issued share capital of the Company as enlarged by the issue of 383,636,331 CPS Conversion Shares.

As amended by the Supplemental Agreement, the CPS do not carry any contractual obligation of the Company to pay any fixed interest to the CPS Holders. Instead, each CPS shall confer on the holder(s) the right to receive dividends *pari passu* with the holders of the ordinary Shares on the basis of the number of CPS Conversion Shares into which each CPS may be converted and on an as-converted basis.

For the further details on terms and conditions of the CPS, please refer to Appendix I to this circular.

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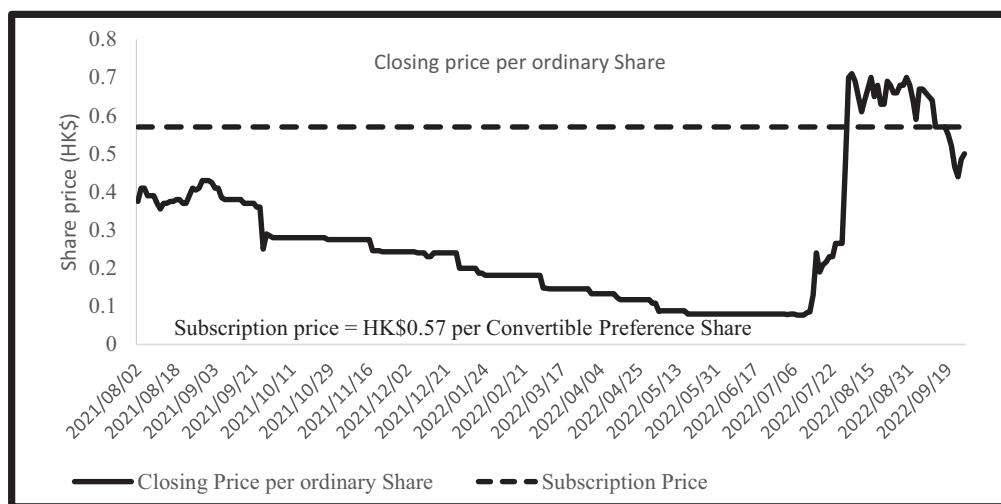
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4. Evaluation of the terms of the CPS

In order to further assess the fairness and reasonableness of terms of the Convertible Preference Shares, we have performed review on (i) the daily closing price of the ordinary Shares as quoted on the Stock Exchange from 1 August 2021 up to and including the Latest Practicable Date (the “**Review Period**”), being a period of twelve months prior to the date of the Loan Capitalisation Agreement up to and including the Latest Practicable Date; (ii) the trading volume of the ordinary Shares during the Review Period; and (iii) the comparison on the issuance of convertible preference shares by companies listed on the Stock Exchange.

#### (a) *Share price performance against the Subscription Price during the Review Period*



Source: The website of the Stock Exchange ([www.hkex.com](http://www.hkex.com))

Start with the beginning of the Review Period, the closing price remained relatively stable and gradually went down to the lowest closing price from 7 July 2022 to 11 July 2022. After staying around the lowest closing price, the closing price then displayed an upward trend until 5 August 2022 and reached the highest closing price of HK\$0.71 on 5 August 2022, being the trading day immediately after the date of Loan Capitalisation Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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During the Review Period, the closing prices of the Shares ranged from HK\$0.077 per Share (the “**Lowest Closing Price**”) to HK\$0.71 per Share (the “**Highest Closing Price**”). The Subscription Price of HK\$0.57 per CPS therefore falls within the highest and lowest closing prices of the Shares, and represents a discount of approximately 19.7% to the Highest Closing Price of the Shares and a premium of approximately 640.3% to the Lowest Closing Price of the Shares, during the Review Period. Meanwhile, the Subscription Price represents a premium of approximately 105.5% to the average closing price during the Review Period of HK\$0.277 per Share (the “**Average Closing Price**”) and had been above the closing prices of the Shares on a majority of the trading days, being 236 trading days out of 263 trading days, throughout the Review Period.

Despite the Subscription Price represents a discount of approximately 18.57% to the closing price of HK\$0.70 per Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of Loan Capitalisation Agreement, we noted that the Subscription Price had been above to the closing prices of the Shares on 29 trading days out of the 30 trading days with an average closing price of approximately HK\$0.162 per Share (the “**Prevailing 30 Days Average Price**”) during the recent 30 trading days immediately preceding the date of the Loan Capitalisation Agreement. As such, the Subscription Price represents a premium of approximately 251.9% over the Prevailing 30 Days Average Price.

According to the 2021 Annual Report, the net deficit attributed to the equity holders of the Company amounted to approximately RMB125,626,000 (equivalent to approximately HK\$146,076,744) as at 31 December 2021 and net deficit per Share attributed to the equity holders of the Company amounted to approximately HK\$0.16 per Share (based on 943,438,836 Shares in issue as at date of the Loan Capitalisation Agreement). It was noted that the Subscription Price represented a premium over the net deficit per Share attributed to the equity holders of the Company as at 31 December 2021.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the Letter to the Board, the terms of the Loan Capitalisation (including the issue price and the terms of the CPS) were determined based on arm's length negotiations between the Company and the Creditor with reference to the prevailing market price of the Shares as quoted on the Stock Exchange in mid-July 2022 when the share price of the Company eventually exceeded the HK\$0.10 level and the Subscription Price was determined after arm's length negotiation between the Company and the Creditor with reference to the middle to long range (i.e. 50 days and 250 days) average closing prices of the Shares and the net liabilities position per Share. We noted that the trading prices of the Shares for the past 3 years, there was only 1 trading day (i.e. 29 July 2022, being the last trading day immediately preceding the signing date of the Loan Capitalisation Agreement) on which the Shares had traded above HK\$0.57. Having considered that (i) the Subscription Price of HK\$0.57 per CPS represents a substantial premium of approximately 45.04%, 341.86% and 144.64% over the five trading days, 50 trading days and 250 trading days average closing price of the Shares as quoted on the Stock Exchange immediately preceding the date of Loan Capitalisation Agreement; (ii) by comparing with the net liabilities of HK\$0.147 per Share as at 31 December 2021; (iii) the Subscription Price had been above the closing prices of the Shares on a majority of the trading days, being 236 trading days out of 263 trading days, throughout the Review Period; and (iv) the issue price of HK\$0.57 per CPS represents a premium over the net liabilities of HK\$0.184 per Share on the basis of the unaudited deficit in the equity attributable to the owners of the Company as at 30 June 2022, the Directors are of the view and we concur that the Subscription Price is fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**(b) Trading liquidity of the Shares**

We have reviewed the trading volume data in respect of the Shares during the Review Period as illustrated in the table below. Set out in the table below is a summary of the monthly/period trading volume of the Shares and the percentages of such monthly/period trading volume to the issued Shares during the Review Period:

	<b>Total trading volume of the Shares <i>Number of Shares</i></b>	<b>Number of trading days in the month  <i>Days</i></b>	<b>Average daily trading volume of the Shares <i>Number of Shares</i></b>	<b>Average daily trading volume as a percentage of the then total number of Shares issued <i>Approximately percentage</i></b>
<b>2021</b>				
August	3,969,250	22	180,420	0.01912%
September	3,508,250	21	167,060	0.01771%
October	134,500	18	7,472	0.00079%
November	35,250	22	1,602	0.00017%
December	42,750	19	2,250	0.00024%
<b>2022</b>				
January	80,750	9	8,972	0.00095%
February	5,000	15	333	0.00004%
March	61,250	17	3,603	0.00038%
April	204,500	18	11,361	0.00120%
May	99,750	20	4,988	0.00053%
June	65,000	21	3,095	0.00033%
July	32,584,795	20	1,629,240	0.17269%
August	23,960,687	19	1,261,089	0.13367%
September	4,144,098	21	197,338	0.02092%
October (up to and including the Latest Practicable Date)	50,000	1	50,000	0.00530%
<b>Average for Review Period</b>				<b>0.02494%</b>

*Source: The website of the Stock Exchange (www.hkex.com)*

As shown in the above table, we noted that the highest total trading volume of the Shares, average daily trading volume and average daily trading volume as a percentage of the then total number of issued Shares were 32,584,795 Shares, 1,629,240 Shares and 0.17269% respectively in July 2022.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We also noted that the trading liquidity of the Shares had been rather thin during the Review Period, where the percentage of the average daily trading volume as a percentage of the then total number of Shares issued were below 0.2%. As such, the trading volume of the Shares is low and the relatively thin trading liquidity may hinder independent third parties underwriter to participate when the Company try to pursue fund raising exercise by way of placement, rights issue or open offer of new Shares.

*(c) Market comparable analysis*

In order to assess the fairness and reasonableness of the terms of the CPS, we have, on a best effort basis, conducted a search of all connected transactions announced by the companies which involved the issues of convertible preference share(s) (excluding (i) the issuance for acquisition; (ii) issues which involved application of whitewash waiver; and (iii) issues which involved capital reorganisation) for the Review Period (being a twelve-month period up to and including the date of the Loan Capitalisation Agreement) (the “**Comparable Issues**”) through published information on the Stock Exchange’s website. Based on such criteria, we have identified only two Comparable Issues on an exhaustive basis. Accordingly, we extended our research to those issue of convertible preference share(s) to both connected persons and independent third parties. Therefore, we have further extended our research period from 1 August 2018 up to and including the date of the Loan Capitalisation Agreement (being an approximately four-year period up to and including the date of the Loan Capitalisation Agreement). Based on such criteria, we have identified eight Comparable Issues which met the said criteria.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To the best of our knowledge, effort and endeavour and based on our search conducted according to the aforesaid criteria, the Comparable Issues is an exhaustive list of issues of convertible preference share(s) meeting the aforesaid criteria. Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not exactly the same as the Comparable Issues and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of the Comparable Issues. Nevertheless, given that this analysis is aiming at taking a general reference to the market practice in relation to similar type of transactions, we consider that our comparable analysis on the terms of the CPS without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable and useful for the Independent Shareholders' reference. We set out our findings in the table below:

No.	Date of announcement	Stock Code	Company Name	Preferential dividend rate per annum	Premium/(discount) of conversion price over/(to)		Connected transactions	Number of conversion shares to be issued	Percentage of the number of conversion shares to be issued to the Company's total issued share	Enlarged issued shares (assuming full conversion)
					closing price per share on the last trading day prior to/on the date of the respective announcement	average closing price per share for the last five consecutive trading days up to and including the date of the respective announcement				
1	27 May 2022	1020	Cybernaut International Holdings Company Limited	N/A	4.17	2.04	Yes	933,333,000	23%	19%
2	28 October 2021	1359	China Cinda Asset Management Co., Ltd	4.40	253.13	243.99	No	2,915,650,442	8%	7%
3	17 September 2020	1398	Industrial and Commercial Bank of China Limited	3.58	35.14	34.13	No	6,037,015,963	2%	2%
4	27 February 2020	3988	Bank of China Limited	3.60	4.75	5.28	No	6,802,721,088	2%	2%
5	13 June 2019	1551	Guangzhou Rural Commercial Bank Co., Ltd	5.90	20.39	21.46	No	311,861,162	3%	3%
6	22 November 2018	1101	China Huarong Energy Company Limited	N/A	190.70	198.69	No	1,358,499,031	47%	53.96%
7	14 November 2018	1216	Zhongyuan Bank Co., Ltd	5.60	7.39	7.30	No	4,933,265,497	25%	20%
8	28 August 2018	8131	abc Multiactive Limited	N/A	16.44	14.56	Yes	298,234,554	99%	49.76%
			<b>Maximum</b>	5.90	253.13	243.99				
			<b>Minimum</b>	3.58	4.17	2.04				
			<b>Median (as applicable)</b>	4.40	18.42	18.01				
			<b>Average (as applicable)</b>	4.62	66.51	65.93				
	<b>4 August 2022</b>	<b>1831</b>	<b>The Company</b>	N/A	(18.57)	45.04	Yes	383,636,331	40.66%	28.91%

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Analysis on the Subscription Price*

As shown in the above table, we noted that the conversion prices of the Comparable Issues ranged from (i) a premium of approximately 4.17% to a premium of approximately 253.13% over the respective closing prices of the shares on the last trading day prior to/on the date of the relevant announcements (the “**LTD Range**”), with a median premium of approximately 18.42% (the “**LTD Median**”) and an average premium of approximately 66.51% (the “**LTD Average**”); and (ii) a premium of approximately 2.04% to a premium of approximately 243.99% over the respective average closing prices of the shares on the last five consecutive trading days up to and including the date of the relevant announcements (the “**Five Days Range**”), with a median premium of approximately 18.01% (the “**Five Days Median**”) and an average premium of approximately 65.93% (the “**Five Days Average**”).

We also noted that the premium of the Subscription Price of approximately 45.04% over the average closing price for last five consecutive trading days up to and including the date of the Loan Capitalisation Agreement falls within the Five Days Range and is higher than the Five Days Median but lower than the Five Days Average. We observed that the premium of the conversion price of the Comparable Issues over the average closing price per share on the last trading day prior to/on the date of the respective announcement and for the last five consecutive trading days up to and including the date of the respective announcement wide-ranged from 4.17% to 253.13% and 2.04% to 243.99%, respectively, therefore we considered that the Five Days Average and LTD Average may not be considered as appropriate for our analysis purpose. Alternatively, we are of the view that the Five Days Median and LTD Median is considered to be more appropriate for our analysis purpose.

Meanwhile, although we noted that the Subscription Price represents a discount of approximately 18.57% to the closing price per ordinary Share on the date of the Loan Capitalisation Agreement and falls outside of the LTD Range, the Subscription Price had been higher than the closing prices of the Shares on: (a) four trading days out of the five trading days for the last five consecutive trading days up to and including the date of the Loan Capitalisation Agreement; and (b) 236 trading days out of the 263 trading days for the Review Period.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Analysis on the preferential dividend rate*

The preferential dividend rate of the Comparable Issues ranged from 3.58% to 5.90% per annum with a median preferential dividend rate of approximately 4.40% per annum and we noted that the CPS do not carry any contractual obligation of the Company to pay any fixed interest to its holders. As such, the absence of preferential dividend entitlement of the CPS falls outside the said market range and is lower than the minimum preferential dividend rate of the Comparable Issues at 3.58% per annum.

### *Conclusion*

Despite that the discount of the Subscription Price on the date of the Loan Capitalisation Agreement falls outside of the LTD Range, after having considered:

- (i) the premium of the Subscription Price over the average closing price for last five consecutive trading days up to and including the date of the Loan Capitalisation Agreement falls within the Five Days Range and is higher than the Five Days Median;
- (ii) the Subscription Price represents a premium over the closing price as quoted on the Stock Exchange for the 236 trading days out of the 263 trading days immediately preceding the date of the Loan Capitalisation Agreement;
- (iii) the average daily trading liquidity of the ordinary Shares was very thin during the Review Period, with 12 months less than 0.2% of the then total number of issued ordinary Shares at each of the relevant time;
- (iv) the absence of preferential dividend entitlement of the CPS; and
- (v) the reasons for and benefits of the Loan Capitalisation Agreement as set out in the paragraph headed “Principal factors taken into consideration for the Loan Capitalisation Agreement – 2. Reasons for and benefits of the Loan Capitalisation” in this letter,

we are of the view that the terms of the CPS are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Group and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5. Financial effects of the Loan Capitalisation

As set out in the Letter from the Board, the CPS are equity in nature and are expected to be accounted as equity in the financial statements of the Company. For illustrative purpose only, set out below is financial effects of the Loan Capitalisation:

*(a) Effects on net assets*

It is expected that upon completion of the Loan Capitalisation, the entire outstanding balance of the Creditor's Loan in the amount of approximately RMB188.1 million (equivalent to approximately HK\$218.7 million) will be set off by the issuance of the CPS, hence the liabilities of the Group will be reduced by approximately HK\$218.7 million and the financial position of the Group will be considerably enhanced.

*(b) Effects on gearing ratio*

It is expected that upon completion of the Loan Capitalisation, the liabilities of the Group will be reduced by approximately HK\$218.7 million and the equity of the Company will be increased by approximately HK\$218.7 million. In view of the reduction of liabilities and increase in equity, the Group's gearing level will be improved.

*(c) Effects on liquidity and working capital*

It is expected that upon completion of the Loan Capitalisation, the Loan Capitalisation will help to avoid substantial cash outflow of the Group in the amount of approximately HK\$218.7 million when the Creditor's Loan falls due. As such, the working capital position and the cash position of the Group will be improved.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Loan Capitalisation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

For illustrative purpose only, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the issue of the CPS Conversion Shares upon full exercise of conversion rights attaching to CPS (assuming there is no other change in the issued share capital of the Company):

	As at the Latest Practicable Date		Immediately after the issue of the CPS upon full exercise of conversion rights attaching to the CPS	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Mr. Chen and his associate				
Mr. Chen	1,758,164	0.19	1,758,164	0.13
The Creditor ( <i>Note 1</i> )	<u>225,440,510</u>	<u>23.90</u>	<u>609,076,841</u>	<u>45.90</u>
Sub-total	227,198,674	24.08	610,835,005	46.03
Public Shareholders	<u>716,240,162</u>	<u>75.92</u>	<u>716,240,162</u>	<u>53.97</u>
	<u><u>943,438,836</u></u>	<u><u>100.00</u></u>	<u><u>1,327,075,167</u></u>	<u><u>100.00</u></u>

*Notes:*

1. The shareholding percentage for the Creditor is for illustration only. Under the terms of the CPS, the Creditor is unable to convert CPS to an extent which would trigger any mandatory general offer obligations under the Takeovers Code.
2. Certain percentage figures in the above table are subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

As illustrated in the table above, the shareholding in the Company held by existing public Shareholders would be diluted from approximately 75.92% as at the Latest Practicable Date to approximately 53.97% immediately upon completion of the Loan Capitalisation and exercise in full of the conversion rights attaching to the CPS.

Notwithstanding that the Loan Capitalisation will incur dilution effect on the shareholding of the existing public Shareholders upon conversion, after taking into account;

- (i) the entire outstanding balance of the Creditor's Loan will be settled without immediate cash outflow;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (ii) the Group's gearing level and financial position will be improved;
- (iii) by issuing the CPS, the Loan Capitalisation would not cause any immediate dilution on the shareholding of the existing public Shareholders; and
- (iv) the reasons for and benefits of the Loan Capitalisation, including but not limited to the view that the Loan Capitalisation, as compared with alternative means of financings, is a preferred way to settle the entire outstanding balance of the Creditor's Loan based on the circumstances of the Company,

we are of the view that the potential dilution effect on the shareholding of existing public Shareholders as a result of Loan Capitalisation is acceptable.

### RECOMMENDATION

Having taken into consideration the factors and reasons stated above, we are of the opinion that although the entering into of the Loan Capitalisation Agreement and the Supplemental Agreement are not in the ordinary and usual course of business of the Company, the terms of the Loan Capitalisation (including the issue price and the terms of the CPS) are on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote for the resolution(s) to be proposed at the SGM to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate at the SGM.

Yours faithfully  
For and on behalf of  
**Red Sun Capital Limited**  
**Robert Siu**  
*Managing Director*

*Mr. Robert Siu is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 24 years of experience in the corporate finance industry.*

The convertible preference shares (the “CPS” or the “**Convertible Preference Shares**”) are issued by ShiFang Holding Limited (the “**Company**”) pursuant to the loan capitalisation agreement (the “**Loan Capitalisation Agreement**”) dated 30 July 2022 between the Company and TopBig International Development Limited (the “**Creditor**”), as supplemented by the supplemental agreement dated 30 September 2022 (the “**Supplemental Agreement**”), created as a separate share class as permitted by the Company’s Bye-laws and the Companies Act 1981 of Bermuda, as amended from time to time. Unless the context otherwise requires, words and expressions used in these terms and conditions shall have the same meanings as attributed to them in the Loan Capitalisation Agreement (the reference of which shall, unless the context otherwise requires, mean the Loan Capitalisation Agreement as supplemented by the Supplemental Agreement).

The CPS shall be held subject to and with the benefit of the terms and conditions set out below. The holder of the CPS (the “**CPS Holder**”) is bound by the terms and conditions hereunder and the Loan Capitalisation Agreement.

Issuer	:	The Company
Par value	:	HK\$0.01 each
Securities to be issued	:	383,636,331 CPS which are unlisted, non-voting and non-redeemable
Original Issue Price	:	HK\$0.57 per CPS (the “ <b>Original Issue Price</b> ”)
Fixed interest	:	As amended by the Supplemental Agreement, the CPS do not carry any contractual obligation of the Company to pay any fixed interest to the CPS Holders. Instead, each CPS shall confer on the holder(s) the right to receive dividends <i>pari passu</i> with the holders of the ordinary Shares on the basis of the number of CPS Conversion Shares into which each CPS may be converted and on an as-converted basis.
Conversion Period	:	Indefinitely, at any time after the date of original issue of the CPS (the “ <b>Conversion Period</b> ”)
Conversion Ratio	:	The number of ordinary shares of the Company (the “ <b>Shares</b> ” or the “ <b>Ordinary Shares</b> ”) to which a CPS Holder shall be entitled upon conversion (provided always that no Conversion Restriction (as defined below) is triggered) shall be the number obtained by multiplying the Conversion Ratio then in effect by the number of CPS being converted. The conversion ratio (the “ <b>Conversion Ratio</b> ”) of each CPS shall be initially on the basis of one (1) CPS into one (1) Share, subject to adjustments upon occurrence of the Adjustment Events as described below.



Conversion Rights : Holders of the CPS shall have the right to convert the CPS into the Shares (the “**CPS Conversion Shares**”) at the Conversion Ratio then in effect at any time during the Conversion Period, provided always that the CPS Holder shall not convert the CPS to an extent which would either (a) reduce the public float of the Company to less than 25% (or the relevant percentage as prescribed by the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”)) of the issued Shares, or (b) result in any change of control (as defined in Hong Kong Code on Takeovers and Mergers, the “**Takeovers Code**”) of the Company or otherwise trigger any mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the CPS Holder who exercises the conversion rights (or parties acting in concert with it) unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with (collectively, the “**Conversion Restrictions**”).

Adjustments Events : The initial Conversion Ratio between the CPS and the Shares will be subject to adjustments upon the occurrence of the following events (the “**Adjustment Events**”).

As amended by the Supplemental Agreement, the adjustment mechanisms of the Conversion Ratio of the CPS (as contained in the section headed “Adjustment Events” on pages 7 to 9 of the Company’s announcement dated 4 August 2022) are removed in their entirety, with the only exception as follows, namely, that if and whenever the ordinary Shares are consolidated or sub-divided into a different nominal amount, then the same consolidation or sub-division shall be effected on the CPS, such that the Conversion Ratio shall remain as one CPS for one ordinary Share as consolidated or sub-divided, as the case may be.

If any doubt shall arise as to the appropriate adjustment to the Conversion Ratio, a certificate issued and signed by the Company’s board of directors (the “**Board**”) shall be conclusive and binding on all concerned save in the case of manifest or proven error.

- Redemption : The CPS are non-redeemable.
- Ranking : The CPS shall rank *pari passu* to any and all current or future preferred equity securities of the Company. The CPS Conversion Shares will, when issued and allotted, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue.
- Transferability : The CPS are freely transferable, provided that any transfer shall be submitted for approval by the Board to satisfy itself that no Conversion Restrictions will be triggered as a result of such transfer. If the Board approves the transfer, it may in its absolute discretion require the CPS to be converted into Ordinary Shares simultaneously with the transfer. In addition, in the event that any CPS is intended to be transferred to a connected person of the Company, such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any).
- Voting : The CPS carry no voting rights.
- Listing : No application will be made for the listing of the CPS on the Stock Exchange or any other stock exchange.
- Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the CPS Conversion Shares that may be allotted and issued upon the exercise of the conversion rights attaching to the CPS.
- Liquidation rights : Subject to all applicable laws, on a distribution of assets of the Company among its members on a return of capital on liquidation, dissolution or winding-up (whether voluntary or involuntary) of the Company or otherwise of Shares by the Company, the CPS shall be entitled, in priority to any holder of any other class of shares in the capital of the Company, to receive in respect of each CPS then held, an amount equal to the Original Issue Price of the CPS, subject to the availability of assets of the Company for such distribution. In addition, the CPS Holders shall be entitled to participate in distribution of surplus, *pari passu* with the holders of ordinary Shares, after the above mentioned return of capital.

**1. STATUS**

1.1 The obligations of the Company arising under Convertible Preference Shares constitute direct, unconditional, unsecured, unsubordinated obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves and with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws.

**2. CONVERSION PROCEDURES**

2.1 The Conversion Rights may, subject as provided herein, be exercised on any business day immediately after the date of issue of Convertible Preference Shares, by the CPS Holders delivering at the principal place of business of the Company in Hong Kong a notice of conversion duly completed to the Company stating the intention of the CPS Holders to convert Convertible Preference Shares into Shares. Any such conversion notice once delivered shall be irrevocable.

2.2 The Company shall pay all taxes and stamp duty, issue and registration duties (if any) and levies and charges (if any) arising on any conversion and issue of share certificates for the CPS Conversion Shares and certificate(s) for the rest of the Convertible Preference Shares the CPS Holder remain to hold in the event of partial conversion.

2.3 (a) The CPS Conversion Shares shall be allotted and issued by the Company, credited as fully paid, to the CPS Holders or as it may direct, within five (5) business days after the date on which the certificate(s) for the Convertible Preference Shares is delivered to and received by the Company for cancellation.

(b) The certificate for the CPS Conversion Shares to which the CPS Holders shall become entitled in consequence of any conversion shall be issued in board lots to the extent practicable, with one certificate for any odd lot of CPS Conversion Shares arising from conversion, and shall be issued and made available for collection at the principal place of business of the Company in Hong Kong within the five (5) business days period provided for in sub-paragraph (a) above.

(c) On any partial conversion of the Convertible Preference Shares, the CPS Holders will by reasonable prior appointment with the Company Secretary or any officer of the Company, attend at the principal place of business of the Company in Hong Kong with the certificate representing the Convertible Preference Shares to be converted and shall join in endorsing the certificate representing the remaining Convertible Preference Shares held by such CPS Holders after such conversion.

**3. VARIATION OF CLASS RIGHTS**

The CPS shall not confer on the holder the right to receive notice of, or to attend and vote at, a general meeting of the Company, unless a resolution is to be proposed at a general meeting for the winding-up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the CPS or vary the restrictions to which the CPS are subject.

## 1. RESPONSIBILITY STATEMENT

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

### Directors' interests and short positions in Shares and underlying Shares

As at the Latest Practicable Date, the interests and short positions of the Directors in the share capital and underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were set out as follows:

Long positions in the Company:

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate percentage of interest
Mr. Chen	Interest in controlled corporation and beneficial owner	610,835,005 (Note 1)	64.75%
Mr. Yu Shi Quan	Beneficial owner	223,049	0.02%

Notes:

- Mr. Chen (an executive director of the Company) was deemed to be interested in 610,835,005 Shares and underlying Shares, comprising (i) 1,758,164 Shares directly held by him; (ii) 225,440,510 Shares held by the Creditor (i.e. TopBig International Development Limited), a controlled corporation which is wholly-owned by Mr. Chen; and (iii) 383,636,331 underlying Shares attributable to the conversion right attaching to 383,636,331 CPS subscribed by the Creditor under the Loan Capitalisation Agreement.
- The percentage of interests are calculated on the basis of 943,438,836 issued Shares of the Company as at the Latest Practicable Date.

### Substantial Shareholders' Interests in Shares and Underlying Shares

As at the Latest Practicable Date, the following persons (other than Directors or chief executives of the Company) had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long positions in Shares:

Name	Capacity/Nature of Interest	Number of Shares	Approximate percentage of interest
The Creditor	Beneficial owner (Note 1)	609,076,841	64.56%
Forever Joy Investments Limited	Beneficial owner (Note 2)	82,307,493	8.72%
Victory Color International Investment Limited	Beneficial owner (Note 3)	75,759,903	8.03%
Mr. Nian Jiaying	Beneficial owner (Note 4)	132,010,713	13.99%

#### Notes:

- (1) The Creditor is a controlled corporation wholly-owned by Mr. Chen, an executive Director. The Creditor was deemed to be interested in 609,076,841 Shares and underlying Shares, comprising (i) 225,440,510 Shares held by the Creditor; and (ii) 383,636,331 underlying Shares attributable to the conversion right attaching to 383,636,331 CPS to be issued by the Company and held by the Creditor upon Loan Capitalisation Completion.
- (2) Based on disclosure of interest filings, Forever Joy Investments Ltd. is a controlled corporation 90% owned by Shenzhen Energy Gaofei Fund Management Co., Ltd which is 70% owned by Mr. Xu Dan.
- (3) Based on disclosure of interest filings, Victory Color International Investment Ltd. is a controlled corporation wholly-owned by Ms. Wu Yufang.
- (4) Mr. Nian Jiaying is interested in 132,010,713 underlying Shares attributable to the conversion right attaching to the convertible bonds issuable to him under the acquisition agreement as disclosed in the Company's announcement dated 4 August 2022.
- (5) The percentage of interests are calculated on the basis of 943,438,836 issued Shares of the Company as at the Latest Practicable Date.

Save as disclosed herein, the Company has not been notified of any other person (other than a Director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at the Latest Practicable Date.

### **3. COMPETING INTERESTS**

As at the Latest Practicable Date, none of Directors and their close associates (as defined the Listing Rules) have any interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group.

### **4. DIRECTORS' SERVICE CONTRACTS**

Each of the executive Directors and the non-executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than six months' notice (for executive Directors) or one month's notice (for non-executive Directors) in writing served by either party on the other. Each of the independent non-executive Directors has been appointed by the Company for a term of three years and shall be terminable by either party by giving not less than one month prior notice in writing.

As at the Latest Practicable Date, none of the Directors had a service contract or proposed to have a service contract, with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### **5. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT**

The followings are the contracts in which a Director is materially interested and which is significant in relation to the business of the Group:

- (a) the Creditor's Loan Agreement; and
- (b) the Loan Capitalisation Agreement.

As at the Latest Practicable Date, save as disclosed above, none of the Directors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Group, nor has any Director had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up.

**6. MATERIAL ADVERSE CHANGE**

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

**7. QUALIFICATION AND CONSENT OF EXPERT**

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Red Sun	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Red Sun has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, Red Sun was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, directly or indirectly, in any asset which had been, since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.



**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection at the office of the Company at Rooms 2801-05, 28/F, China Insurance Group Building, 141 Des Vaux Road Central, Hong Kong, during 10:00 a.m. to 4:00 p.m. on any Business Day from the date of this circular up to and including the date of the SGM:

- (a) the Loan Capitalisation Agreement;
- (b) the director's service contract referred to in the paragraph headed "Directors' Service Contracts" in this Appendix;
- (c) the written consent of the expert referred to in the paragraph headed "Qualification and Consent of Expert" in this Appendix;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 20 in this circular;
- (e) the letter of advice from Red Sun to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 44 in this circular; and
- (f) this circular.

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## NOTICE OF SGM

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### SHIFANG HOLDING LIMITED

### 十方控股有限公司

*(incorporated in the Cayman Islands and re-domiciled and continued in Bermuda with limited liability)*

**(Stock code: 1831)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an special general meeting (the “SGM”) of ShiFang Holding Limited (the “Company”) will be held at on Friday, 4 November 2022 at 11:00 a.m. at 6/F, Hua Fu Mansion, No. 121 Gutian Road, Gulou District, Fuzhou, Fujian Province, the PRC to consider and, if thought fit, pass the following resolutions as ordinary resolutions.

#### ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the existing authorised share capital of the Company be and is hereby increased from HK\$1,000,000,000 divided into 100,000,000,000 ordinary shares of HK\$0.01 each (each an “**Ordinary Share**”) to HK\$1,100,000,000, by the creation of additional 10,000,000,000 non-voting convertible preference shares (each a “**Non-voting CPS**”) of HK\$0.01 each, with such rights and restrictions (the “**CPS Terms**”) as determined by the directors of the Company (the “**Directors**”) pursuant to Bye-law 8 of the Company’s Bye-laws and as set out in Appendix I (the “**Appendix**”) to the circular of the Company dated 12 October 2022 (the “**Circular**”, a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification);
- (b) all of the existing issued shares of the Company shall, for the avoidance of doubt, be designated as ordinary shares which shall have the same rights and restrictions attached thereto as are attached to the ordinary shares immediately prior to the increase and designation of the share capital of the Company as stipulated in paragraph (a) above; and
- (c) the CPS Terms be and are hereby approved, confirmed and ratified, and the Directors be and are hereby authorised to issue the Non-voting CPS and to do all other acts and things and execute all documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the transactions contemplated under this resolution.

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## NOTICE OF SGM

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2. "THAT:

- (a) the terms and the entering into of the loan capitalisation agreement (the "**Loan Capitalisation Agreement**", a copy of which has been produced to this meeting marked "**B**" and signed by the chairman of this meeting for the purpose of identification) dated 30 July 2022 by TopBig International Development Limited (the "**Creditor**") and the Company in relation to the subscription by the Creditor of 383,636,331 new Non-voting CPS at the subscription price of HK\$0.57 per Non-voting CPS, by capitalising (the "**Loan Capitalisation**") the entire outstanding balance (including principal and interest) of RMB188,058,530 (equivalent to approximately HK\$218,672,709) (the "**Creditor's Loan**") owed by the Company and its subsidiaries (the "**Group**") to the Creditor under the loan agreement between the Company and the Creditor dated 22 April 2022 (the "**Creditor's Loan Agreement**"), and the supplemental agreement (the "**Supplemental Agreement**", a copy of which has been produced to this meeting marked "**C**" and signed by the chairman of this meeting for the purpose of identification) dated 30 September 2022 by the Creditor and the Company, be and are hereby generally and unconditionally approved, confirmed and ratified in all respects;
- (b) any one Director be and is hereby authorised to take all necessary steps to complete such listing application in respect of the Ordinary Shares to be allotted and issued by the Company upon the exercise of the conversion rights attaching to the Non-voting CPS (the "**CPS Conversion Shares**") as stated in the Form C1 and the undertakings and all documents (if any) required by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**");
- (c) conditional upon the Stock Exchange granting the listing of, and permission to deal in, the CPS Conversion Shares, the Directors be and are hereby (i) authorised to issue the Non-voting CPS to the Creditor; (ii) granted a specific mandate (the "**Specific Mandate**") to allot and issue the CPS Conversion Shares in accordance with the CPS Terms, such Specific Mandate being in addition to and not prejudicing or revoking any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and

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## NOTICE OF SGM

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- (d) the Directors be and are hereby generally and unconditionally authorized to do all such acts or things and execute and deliver all such documents, instruments and agreements which they consider necessary, desirable or expedient to give effect to the transactions contemplated by the Loan Capitalisation Agreement (as supplemented by the Supplemental Agreement), the issue of the Non-voting CPS and the allotment and issue of the CPS Conversion Shares, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company.”

By order of the Board  
**ShiFang Holding Limited**  
**Chen Zhi**  
*Chairman & Chief Executive Officer*

Hong Kong, 12 October 2022

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business in Hong Kong:*

Rooms 2801-05, 28/F  
China Insurance Group Building  
141 Des Vouex Road Central  
Hong Kong

*Notes:*

1. A shareholder of the Company entitled to attend and vote at the SGM is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.
3. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours before the time fixed for holding of the SGM.
4. Completion and return of the form of proxy will not preclude members from attending and voting at the SGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. In compliance with the Listing Rules, resolutions to be proposed at the SGM convened by this notice will be voted on by way of poll.

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## NOTICE OF SGM

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6. The register of members of the Company will be closed from Tuesday, 1 November 2022 to Friday, 4 November 2022 (both days inclusive) for the purpose of determining the eligibility of the shareholders of the Company to attend and vote at the SGM. During the closure of the register of members of the Company, no transfer of Shares will be effected. In order to be eligible to attend and vote at the SGM (or at any adjournment thereof), all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Monday, 31 October 2022.
7. To ensure the health and safety of the attendees at the SGM, the Company intends to implement precautionary measures at the SGM including: (a) compulsory temperature checks at the entrance of the SGM venue; (b) attendees are required to bring their own surgical masks and those who had high temperature or not wearing surgical masks might be denied access to the SGM venue; (c) no corporate gift, refreshments or drinks will be provided at the SGM; and (d) depending on circumstances, separate rooms connected by instant electronic conference facilities may be arranged at the SGM venue to limit the number of attendees at each room.

*As at the date of this notice, the executive Directors are Mr. Chen Zhi (Chairman and Chief Executive Officer) and Mr. Yu Shiquan; the non-executive Directors are Mr. Chen Wei Dong and Ms. Chen Min; the independent non-executive Directors are Mr. Zhou Chang Ren, Mr. Wong Heung Ming, Henry, and Mr. Cai Jian Quan.*