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

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盛源控股有限公司

SHENG YUAN HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 851)

**(1) PROPOSED CONVERSION OF CONVERTIBLE BONDS
(2) APPLICATION FOR WHITEWASH WAIVER
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

Independent Financial Adviser to the Independent Board Committee



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

A letter from the Board is set out on pages 8 to 19 of this circular. A letter from the Independent Board Committee including its advice to the Independent Shareholders is set out on page 20 of this circular. A letter from Gram Capital including its advice to the Independent Board Committee is set out on pages 21 to 35 of this circular.

A notice convening the SGM to be held at 26F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong on Thursday, 18 May 2023 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is also enclosed herewith. Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 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 the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

26 April 2023

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DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Adjusted Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company following the Capital Reorganization becoming effective but prior to the Share Consolidation becoming effective
“Asset Management Business”	the provision of asset management services by the Group in relation to the provision of discretionary account management and fund management services for individual and corporate clients
“Atta Asset”	Atta Asset 4 Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
“Atta Notes”	a leveraged promissory note issued by Atta Asset to Kingwell Management in the principal amount of US\$20,000,000 with the subscription amount of US\$10,000,000
“Atta Notes Purchase Agreement”	the agreement dated 15 September 2021 entered into between Atta Asset (as the issuer) and Kingwell Management (as the purchaser) in relation to the subscription of the Atta Notes
“Board”	the board of Directors
“Capital Reduction”	the reduction of the issued share capital of the Company, whereby the par value of all the then issued existing shares of the Company has been reduced from HK\$0.05 each to HK\$0.01 each by cancelling the paid-up capital of the Company to the extent of HK\$0.04 on each of the then existing Shares in issue
“Capital Reorganization”	collectively, the Capital Reduction and the Share Subdivision, which became effective on 26 September 2022
“Capital Reorganization Announcements”	the announcements of the Company dated 24 August 2022 and 22 September 2022 in relation to, among others, the Capital Reorganization, the Share Consolidation and the adjustment of Conversion Price of the Convertible Bonds

DEFINITIONS

“Capital Reorganization Circular”	the circular of the Company dated 31 August 2022 in relation to, among others, the Capital Reorganization, the Share Consolidation and the adjustment of Conversion Price of the Convertible Bonds
“Company”	Sheng Yuan Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange (Stock Code: 851)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Conversion Conditions”	the conversion conditions of the Convertible Bonds as set out in the section headed “Conversion Conditions of the Convertible Bonds” in the Convertible Bonds Announcements and the Convertible Bonds Circular
“Conversion Price”	the conversion price per Share upon the exercise of the Convertible Bonds, being HK\$0.3 per Share (as adjusted following the Share Consolidation), subject to adjustments as provided under the terms and conditions of the Convertible Bonds
“Conversion Share(s)”	the Share(s) to be issued upon the conversion of the Convertible Bonds
“Convertible Bond(s)”	the convertible bond(s) in the aggregate principal amount of HK\$150 million at the interest rate of 1% per annum issued by the Company to Yuanyin Holdings, details of which are included in the Convertible Bonds Announcements and the Convertible Bonds Circular
“Convertible Bonds Announcements”	the announcements of the Company dated 1 April 2021 and 21 May 2021 in relation to, among others, the issuance of the Convertible Bonds
“Convertible Bonds Subscription Agreement”	the subscription agreement dated 1 April 2021 in respect of the subscription of the Convertible Bonds entered into between the Company and Yuanyin Holdings, details of which are included in the announcements of the Company dated 1 April 2021, 14 May 2021, 21 May 2021, and the circular of the Company dated 29 April 2021
“Convertible Bonds Circular”	the circular of the Company dated 29 April 2021 in relation to, among others, the issuance of the Convertible Bonds
“DCM”	debt capital market
“Director(s)”	the director(s) of the Company

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“ECM”	equity capital market
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“Flourishing”	Flourishing Fountain Investment Limited, a company incorporated in the British Virgin Island with limited liability. It is owned as to 100% by Ms. Huang Yanping, a non-executive director of Zensun
“Flourishing Fund’s Subscriptions”	collectively, (i) the subscription of the Zensun 23 Notes in the principal amount of US\$ 10,580,000; (ii) the subscription of the Zensun 24 Notes in the principal amount of US\$6,500,000; and (iii) the entering into of the Atta Notes Purchase Agreement and the purchase of Atta Notes in the principal amount of US\$10,000,000, by Kingwell Management with the Kingwell Notes Proceeds pursuant to the terms of the Kingwell Notes Subscription Agreement and the Triparty Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee, comprising Mr. Zhang Jinfan, Ms. Huang Qin and Mr. Guo Yaoli, being all the independent non-executive Directors, which has been formed to advise the Independent Shareholders in respect of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver and as to voting
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee in respect of the terms of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver
“Independent Shareholders”	Shareholders other than Yuanyin Holdings and parties acting in concert with it and their respective associates and those who are otherwise involved in, or interested in, the Proposed Conversion of the Convertible Bonds and/or the Whitewash Waiver and those who are required under the Listing Rules and/or the Takeovers Code (as the case may be) to abstain from voting at the SGM

DEFINITIONS

“Independent Third Party”	third party(ies) independent of the Company and connected persons of the Company
“Kingwell Management”	Kingwell Management Limited, a company incorporated under the laws of Hong Kong with limited liability, and a wholly-owned subsidiary of the Company
“Kingwell Notes”	the principal amount of US\$27,080,000 12.5% notes due 2024 issued by Kingwell Management to Flourishing pursuant to the Kingwell Notes Subscription Agreement
“Kingwell Notes Proceeds”	the proceeds received by Kingwell Management
Kingwell Notes Subscription Agreement”	a subscription agreement dated 6 September 2021 entered into between Kingwell Management (as the issuer) and Flourishing (as the subscriber) in relation to the subscription of the Kingwell Notes
“Latest Practicable Date”	21 April 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Last Trading Day”	10 February 2023, being the last trading day of the Shares immediately prior to the date of the Proposed Conversion Announcement
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China which, for the purpose of this circular, does not include Hong Kong, Macau Special Administrative Region and Taiwan
“Proposed Conversion Announcement”	the announcement dated 13 February 2023 in relation to the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver
“Proposed Conversion of the Convertible Bonds”	the proposed conversion of the Convertible Bonds in full at the Conversion Price by Yuanyin Holdings
“Relevant Period”	the period beginning six months immediately prior to the date of the Proposed Conversion Announcement (i.e. 13 August 2022) and ending on the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“Securities Brokerage and Financial Services Business”	the provision of securities brokerage and financial services by the Group in relation to the provision of (i) underwriting and placing services; (ii) securities and futures brokerage services; (iii) margin financing and money lending business; (iv) financial advisory services; and (v) custodian services
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened and held at 10:00 a.m. on Thursday, 18 May 2023 at 26F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong to consider, among other matters, the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver
“Share(s)”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Share Consolidation”	the consolidation of every ten (10) issued and unissued Adjusted Shares of par value HK\$0.01 each in the share capital of the Company into one (1) consolidated Share of par value HK\$0.10 each, which became effective on 26 September 2022
“Share Subdivision”	the subdivision of each of the then authorized but unissued existing shares of the Company of par value of HK\$0.05 into five Adjusted Shares of par value of HK\$0.01 each, which became effective on 26 September 2022
“Shareholder(s)”	holder(s) of the Share(s)
“Sheng Yuan Investment Advisors”	Sheng Yuan Investment Advisors Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Sheng Yuan’s Proprietary Investment”	the subscription of the Zensun 24 Notes in the principal amount of US\$2,500,000 by Kingwell Management on 23 September 2021, which is a proprietary investment of the Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Convertible Bonds by Yuanyin Holdings pursuant to the terms and conditions of the Convertible Bonds Subscription Agreement

DEFINITIONS

“SYAM”	Sheng Yuan Asset Management Limited, a company incorporated in Hong Kong with limited liability, licensed to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, and an indirect wholly-owned subsidiary of the Company
“SYS”	Sheng Yuan Securities Limited, a company incorporated in Hong Kong with limited liability, licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO, and an indirect wholly-owned subsidiary of the Company
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“Triparty Agreement”	a triparty agreement dated 11 September 2021 entered into among Kingwell Management, Flourishing and Sheng Yuan Investment Advisors in relation to, among others, the Sheng Yuan’s Proprietary Investment and the Flourishing Fund’s Subscriptions and the repayment obligations for Kingwell Management
“Whitewash Waiver”	the whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of Yuanyin Holdings to make a mandatory offer for all the issued Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) not already owned or agreed to be acquired by Yuanyin Holdings and parties acting in concert with it which might otherwise arise as a result of the allotting and issuing to Yuanyin Holdings of the Conversion Shares pursuant to the conversion of the Convertible Bonds
“Yuanyin Group”	Yuanyin Holdings and its subsidiaries
“Yuanyin Holdings”	Yuanyin Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which, together with parties acting in concert with it, was interested in 103,017,000 Shares, representing approximately 26.97% of the total issued share capital of the Company as at the Latest Practicable Date
“Zensun”	Zensun Enterprises Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 185)

DEFINITIONS

“Zensun 23 Notes”	US\$200 million 12.50% senior notes due 2023 issued by Zensun (stock code: 40836), details of which are included in the announcement of Zensun dated 9 September 2021
“Zensun 24 Notes”	US\$160 million 12.50% senior notes due 2024 issued by Zensun (stock code: 40859), details of which are included in the announcement of Zensun dated 17 September 2021
“%”	per cent

LETTER FROM THE BOARD



盛源控股有限公司

SHENG YUAN HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 851)

Executive Directors:

Mr. Zhou Quan
Mr. Zhao Yun

Non-executive Directors:

Mr. Ma Baojun
Mr. Huang Shuanggang

Independent non-executive Directors:

Mr. Zhang Jinfan
Ms. Huang Qin
Mr. Guo Yaoli

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Principal place of business
in Hong Kong:*

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

26 April 2023

To the Shareholders

Dear Sir or Madam,

(1) PROPOSED CONVERSION OF CONVERTIBLE BONDS AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

References are made to (i) the Convertible Bonds Announcements and the Convertible Bonds Circular in relation to, among others, the issuance of the Convertible Bonds; (ii) the Capital Reorganization Announcements and the Capital Reorganization Circular in relation to, among others, the adjustment of Conversion Price of the Convertible Bonds following the Share Consolidation; and (iii) the Proposed Conversion Announcement.

The purpose of this circular is to provide the Shareholders with, among other things, (i) further information in relation to the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver; (ii) recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver and as to voting; (iii) the letter from Gram Capital to the Independent Board Committee in respect of the terms of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver and as to voting; (iv) additional information as required under the Takeovers Code; and (v) the notice of the SGM.

LETTER FROM THE BOARD

PROPOSED CONVERSION OF THE CONVERTIBLE BONDS

On 13 February 2023, the Company received a notice from Yuanyin Holdings of its intention to exercise the conversion rights in respect of the Convertible Bonds in full in the outstanding aggregate principal amount of HK\$150 million, subject to the Conversion Conditions.

CONVERSION CONDITIONS OF THE CONVERTIBLE BONDS

According to the terms and conditions of the Convertible Bonds, the conversion of the Convertible Bonds is subject to fulfillment of the following conditions precedent (the “**Conversion Conditions**”):

- (i) the Listing Committee having granted (either unconditional or subject only to conditions to which Yuanyin Holdings does not reasonably object) the listing of and permission to deal in, the Conversion Shares;
- (ii) with respect to Yuanyin Holdings’ exercise of its conversion right as a holder of the Convertible Bonds:
 - (a) the Whitewash Waiver being granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligations on Yuanyin Holdings to make a mandatory offer for all the issued Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than those already owned or agreed to be acquired by Yuanyin Holdings and parties acting in concert with it as a result of the Company allotting and issuing of the Conversion Shares (if required) and not having been withdrawn;
 - (b) the respective resolutions relating to the Proposed Conversion of the Convertible Bonds on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the SGM by way of poll;
 - (c) the granting of the approval from the SFC in relation to the change of substantial shareholder(s) (as defined in the SFO) of each of the licensed corporations within the Group upon the issuance of the Conversion Shares; and
- (iii) the public float of the Shares having not fallen below the minimum requirement under Rule 8.08(1)(a) of the Listing Rules or as required by the Stock Exchange immediately upon such conversion.

As disclosed on page 22 of the Convertible Bonds Circular, the conversion of the Convertible Bonds is also subject to completion of the Capital Reorganization which involves, among others, a reduction of the par value of each of the issued existing shares from HK\$0.05 per share to HK\$0.01 per share of the Company. The Capital Reorganization has been completed and became effective on 26 September 2022.

LETTER FROM THE BOARD

In relation to condition (ii)(c) above, the relevant licensed corporations within the Group include: Sheng Yuan Capital (Hong Kong) Limited (licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO), Sheng Yuan Sino Asset Management Limited (licensed to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO), Sheng Yuan Securities Limited (licensed to carry out type 1 (dealing in securities), type 2 (dealing in future contracts) and type 4 (advising on securities) regulated activities under the SFO) and Sheng Yuan Asset Management Limited (licensed to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO). Application in relation to the change of substantial shareholder(s) (as defined in the SFO) of each of the aforementioned licensed corporations within in the Group has been made by Yuanyin Holdings to the SFC on 15 November 2022 and have been approved by the SFC on 1 February 2023.

The Conversion Conditions cannot be waived by any party. If any of the Conversion Conditions is not fulfilled, the conversion of the Convertible Bonds will not take place and the notice from Yuanyin Holdings of its intention to exercise the conversion rights in respect of the Convertible Bonds will be deemed to be withdrawn.

As at the Latest Practicable Date, the Listing Committee had conditionally granted (subject to allotment) and had not withdrawn or revoked the approval of listing of and permission to deal in all the Conversion Shares which might fall to be allotted and issued upon the exercise of the conversion rights pursuant to Convertible Bonds.

Save for conditions (i) and (ii)(c) above and the completion of the Capital Reorganization, none of the Convertible Conditions had been fulfilled as at Latest Practicable Date.

LETTER FROM THE BOARD

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the issuance of the Conversion Shares upon full conversion of the Convertible Bonds (assuming that there will be no other change in the issued share capital of the Company):

Shareholders	As at the Latest Practicable Date		Immediately after the issuance of the Conversion Shares upon full conversion of the Convertible Bonds	
	Number of Shares	Approximate %	Number of Shares	Approximate %
<i>Yuanyin Holdings and parties acting in concert with it</i>				
Yuanyin Holdings ⁽¹⁾	101,100,000	26.47	601,100,000	68.15
Yuanyin International Limited ⁽¹⁾	<u>1,917,000</u>	<u>0.50</u>	<u>1,917,000</u>	<u>0.22</u>
Subtotal	<u>103,017,000</u>	<u>26.97</u>	<u>603,017,000</u>	<u>68.37</u>
<i>Public Shareholders</i>				
Ms. Zhao Jianyun ⁽²⁾	35,714,286	9.35	35,714,286	4.05
Mr. Shao Yongchao ⁽³⁾	30,000,000	7.85	30,000,000	3.40
Other public Shareholders	<u>213,239,256</u>	<u>55.83</u>	<u>213,239,256</u>	<u>24.18</u>
Subtotal	<u>278,953,541</u>	<u>73.03</u>	<u>278,953,541</u>	<u>31.63</u>
Total	<u>381,970,541</u>	<u>100%</u>	<u>881,970,541</u>	<u>100%</u>

Notes:

- (1) As at the Latest Practicable Date, the 103,017,000 Shares which Yuanyin Holdings was interested in under Part XV of the SFO included (i) 101,100,000 Shares directly held by Yuanyin Holdings; and (ii) 1,917,000 Shares indirectly held through Yuanyin International Limited (a wholly-owned subsidiary of Yuanyin Holdings).
- (2) Ms. Zhao Jianyun is a PRC national and has extensive experience in investing in listed companies. As at the Latest Practicable Date, Ms. Zhao Jianyun was a third party shareholder independent of the Company, Yuanyin Holdings and Yuanyin International Limited. The Shares held by Ms. Zhao Jianyun are considered to be in public hands in accordance with Rule 8.24 of the Listing Rules.
- (3) Mr. Shao Yongchao is a PRC national and has extensive experience in investing in listed companies. As at the Latest Practicable Date, Mr. Shao Yongchao was a third party shareholder independent of the Company, Yuanyin Holdings and Yuanyin International Limited. The Shares held by Mr. Shao Yongchao are considered to be in public hands in accordance with Rule 8.24 of the Listing Rules.
- (4) None of the Directors held any Shares as at the Latest Practicable Date.

LETTER FROM THE BOARD

APPLICATION FOR THE WHITEWASH WAIVER

As at the Latest Practicable Date, Yuanyin Holdings was a substantial Shareholder which, together with parties acting in concert with it, is interested in (i) 103,017,000 Shares, representing approximately 26.97% of the total issued share capital of the Company; and (ii) the Convertible Bonds in an aggregate outstanding principal amount of HK\$150 million.

Upon full conversion of the Convertible Bonds, 500,000,000 Conversion Shares will be issued to Yuanyin Holdings and therefore, Yuanyin Holdings and parties acting in concert with it will hold an aggregate of 603,017,000 Shares. The aggregate shareholding interests of Yuanyin Holdings and parties acting in concert with it will be increased from approximately 26.97% to approximately 68.37% of the issued share capital of the Company (as enlarged by the issuance of the Conversion Shares pursuant to the conversion of Convertible Bonds, assuming there is no other change in the issued share capital of the Company save for the issuance of such Conversion Shares).

Accordingly, Yuanyin Holdings would be obliged to make a mandatory offer pursuant to Rule 26.1 of the Takeovers Code for all the issued Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) not already owned or agreed to be acquired by Yuanyin Holdings and parties acting in concert with it as a result of the allotment and issuance of the Conversion Shares to Yuanyin Holdings by the Company, unless the Whitewash Waiver is granted by the Executive.

In this regard, an application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be conditional upon, among others, the conditions that the respective resolutions relating to the Proposed Conversion of the Convertible Bonds on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the SGM by way of poll.

If the Whitewash Waiver is approved by the Independent Shareholders, the maximum potential holding of voting rights of the Company held by Yuanyin Holdings and parties acting in concert with it pursuant to the conversion of Convertible Bonds will exceed 50% of the voting rights of the Company. Yuanyin Holdings and parties acting in concert with it may further increase their holdings of voting rights of the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, the Company did not believe that the Proposed Conversion of the Convertible Bonds would give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed Conversion of the Convertible Bonds does not comply with other applicable rules and regulations.

The Executive has indicated its intention, subject to the respective resolutions relating to the Proposed Conversion of the Convertible Bonds on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of

LETTER FROM THE BOARD

the votes cast by the Independent Shareholders at the SGM by way of poll, to waive any obligation of Yuanyin Holdings to make a mandatory offer as a result of the allotment and issuance of the Conversion Shares to Yuanyin Holdings by the Company.

INFORMATION OF THE GROUP

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

The following is a summary of the financial results of the Group for each of the years ended 31 December 2022, 31 December 2021 and 31 December 2020 (as extracted from the audited financial statement set out in the 2022 annual results announcement of the Company dated 22 March 2023, the 2021 annual report of the Company and the 2020 annual report of the Company):

	Year ended 31 December		
	2022	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
Revenue	59,940	43,306	44,549
Profit/(Loss) before income tax/taxation	(3,681)	10,358	14,473
Income tax expense/Taxation	(2,121)	(5,708)	(2,467)
Profit/(Loss) for the period	(5,802)	4,650	12,006

The increase in the revenue of the Group for the year ended 31 December 2022 when compared to the year ended 31 December 2021 was primarily attributable to the increase in the revenue from the securities business because some clients restart their DCM and ECM projects during the year; which was partially offset by (i) the decrease in the revenue from the asset management business due to a decrease of management fee as a result of the redemption of the fund upon the maturity of some investment holdings which resulted in a drop in total asset under management and thus the management fee income and (ii) the loss from proprietary trading business. The Group recorded a loss for the year ended 31 December 2022 as compared to a profit for the year ended 31 December 2021, and this was primarily attributable to the increase of finance costs and corporate expenses.

The decrease in the profit of the Group for the year ended 31 December 2021 when compared to the year ended 31 December 2020 was primarily attributable to both slight drop in revenue and increases in some expense items, including purchase of inventories for trading businesses, loss allowance on receivables, finance cost, and income taxes for the year ended 31 December 2021.

LETTER FROM THE BOARD

The following is a summary of the financial positions of the Group as at (31 December 2022, 31 December 2021 and 31 December 2020 (as extracted from the 2022 annual results announcement of the Company dated 22 March 2023, and the audited financial statement set out in the 2021 and 2020 annual reports of the Company):

	As at 31 December		
	2022	2021	2020
	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
Non-current assets	15,979	27,590	10,823
Current assets	198,709	131,317	69,089
Non-current liabilities	—	(142,665)	(109,690)
Current liabilities	(251,844)	(47,550)	(20,984)

The decrease in the non-current assets of the Group for the year ended 31 December 2022 when compared to the year ended 31 December 2021 was primarily attributable to the decrease in the value of the Zensun 24 notes under the Sheng Yuan's Proprietary Investment and the value accounted for the right-of-use assets. The increase in the current assets of the Group for the year ended 31 December 2022 when compared to the year ended 31 December 2021 was primarily attributable to the increase of trust bank balances held on behalf of clients and listed equity securities held for trading investments. The Group recorded nil non-current liabilities as at 31 December 2022 and an increase in the current liabilities of the Group for the year ended 31 December 2022 when compared to the year ended 31 December 2021 primarily due to the fact that the Convertible Bonds will be due in May 2023, which therefore rendering the Convertible Bonds to be classified as a current liability as at 31 December 2022 as compared to a non-current liability as at 31 December 2021.

The increase in the non-current assets of the Group for the year ended 31 December 2021 when compared to the year ended 31 December 2020 was primarily attributable to the Sheng Yuan's Proprietary Investment. The increase in the current assets of the Group for the year ended 31 December 2021 when compared to the year ended 31 December 2020 was primarily attributable to the increase in the trust bank balances held on behalf of clients and the demand deposits and cash on hand. The increase in the non-current liabilities of the Group for the year ended 31 December 2021 when compared to the year ended 31 December 2020 was primarily attributable to the issuance of the Convertible Bonds in 2021. The increase in the current liabilities of the Group for the year ended 31 December 2021 when compared to the year ended 31 December 2020 was primarily attributable to the increase in the trade payables arising from the business of dealing in securities and futures contracts.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors who have no direct or indirect interest in the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder, namely Mr. Zhang Jinfan, Ms. Huang Qin and Mr. Guo Yaoli, has been formed to advise the Independent Shareholders with regard to the Proposed Conversion of the Convertible Bonds

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and the Whitewash Waiver and as to voting. The Independent Board Committee excludes the non-executive Directors, namely Mr. Ma Baojun and Mr. Huang Shuanggang, who are also directors of Yuanyin Holdings.

Gram Capital has been appointed by the Board with the Independent Board Committee's approval as the Independent Financial Adviser to advise the Independent Board Committee as to the fairness and reasonableness of the terms of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver and as to voting by the Independent Shareholders.

INFORMATION ON YUANYIN HOLDINGS

Yuanyin Holdings, a company incorporated in the British Virgin Islands with limited liability which, together with its subsidiaries, was interested in 103,017,000 Shares, representing approximately 26.97% of the total issued share capital of the Company as at Latest Practicable Date. It is principally engaged in investment holding which includes its capital investment in its subsidiaries and its investment in stocks and funds including its investment holding in the Company.

As at the Latest Practicable Date, Yuanyin Holdings had 630,000,000 shares in issue. Each share confers upon its holder the right to one vote.

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

Name of shareholders	Number of shares	% of the shares	Number of votes held	% of the voting rights
Deyou Hong Kong Limited (德祐香港有限公司) ⁽¹⁾	20,000,000	3.17%	20,000,000	3.17%
LUXURY TREASURE HOLDINGS LIMITED (逸寶控股有限公司) ⁽²⁾	50,000,000	7.94%	50,000,000	7.94%
Shengzhao Industry Limited (盛兆實業有限公司) ⁽³⁾	100,000,000	15.87%	100,000,000	15.87%
Yunlei Enterprises Limited (雲雷企業有限公司) ⁽⁴⁾	100,000,000	15.87%	100,000,000	15.87%
COMPETENT GLORY LIMITED ⁽⁵⁾	50,000,000	7.94%	50,000,000	7.94%
Zhenyu Corporation Limited (振宇企業有限公司) ⁽⁶⁾	100,000,000	15.87%	100,000,000	15.87%
Hong Kong Xingrui International Investment Co., Limited (香港興瑞國際投資有限公司) ⁽⁷⁾	100,000,000	15.87%	100,000,000	15.87%
Pure Benefit Developments Limited ⁽⁸⁾	100,000,000	15.87%	100,000,000	15.87%
Superb East Investments Limited (卓東投資有限公司) ⁽⁹⁾	<u>10,000,000</u>	<u>1.59%</u>	<u>10,000,000</u>	<u>1.59%</u>
Total	<u>630,000,000</u>	<u>100%</u>	<u>630,000,000</u>	<u>100%</u>

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Notes:

As at the Latest Practicable Date,

- (1) Deyou Hong Kong Limited, a company principally engaged in providing trust services, was owned by (i) Mr. Ma Baojun (馬寶軍) (a non-executive Director) as to 90% and (ii) Mr. Xu Dajiang (許大江) as to 10%.
- (2) LUXURY TREASURE HOLDINGS LIMITED, a company principally engaged in medical insurance and infrastructure, was owned by Mr. Ma Jie (馬捷) as to 100%.
- (3) Shengzhao Industry Limited, a company principally engaged in real estate property development, was owned by Mr. Huang Shuanggang (黃雙剛) (a non-executive Director) as to 100%.
- (4) Yunlei Enterprises Limited, a company principally engaged in infrastructure development, was owned by Mr. Jiao Yunlei (焦雲雷) as to 100%.
- (5) COMPETENT GLORY LIMITED, a company principally engaged in metal trading business, was owned by Mr. Fu Qinglin (付慶林) as to 100%.
- (6) Zhenyu Corporation Limited, a company principally engaged in real estate property development, was owned by Mr. Liu Zhenjiang (劉鎮江) as to 100%.
- (7) Hong Kong Xingrui International Investment Co., Limited, a company principally engaged in coal industry, was owned (i) ultimately by Chen Xingming (陳星明) as to 1% and (ii) by Zhengzhou Xingqian Trading Co., Ltd.* (鄭州興謙商貿有限公司) as to 99%, which was in turn owned by Chen Xingming (陳星明) as to 98% and Li Jie (李杰) as to 2%.
- (8) Pure Benefit Developments Limited, a company principally engaged in investment holding, was owned by Cong Lin (叢林) as to 100%.
- (9) Superb East Investments Limited, a company principally engaged in real estate property development, was owned by Mr. Zhang Chunmin (張春敏) as to 100%.

* *for identification purpose only*

Save for Deyou Hong Kong Limited, Mr. Ma Baojun, Shengzhao Industry Limited and Mr. Huang Shuanggang, the remaining shareholders of Yuanyin Holdings and their respective ultimate beneficial owner(s) are independent third parties of the Company.

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

As disclosed in the Convertible Bonds Circular, it is the intention of the Yuanyin Group to convert the Convertible Bonds in full pursuant to the terms and conditions of the Convertible Bonds Subscription Agreement and to acquire majority stake in the Company. Holding more than 50% of the total issued share capital of the Company will give Yuanyin Holdings a controlling interest in the Group, and the shareholders of Yuanyin Holdings will therefore also have more incentive in devoting resources of the Yuanyin Group into the Group after Yuanyin Holdings becomes a majority shareholder of the Company, which will further enhance the continuing implementation of the business plan of the Company (the “**Business Plan**”) at both operational and financial levels, including, among others, the expansion and development of its Asset Management Business, the Securities Brokerage and Financial

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Services Business and other business such as consultancy services. Pursuant to the Business Plan, the Group has completed the recruitment of the senior personnel from the then licensed entities under the Yuanyin Group (i.e. Yuanyin Securities Limited and Yuanyin Asset Management Limited, which were licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and/or type 9 (asset management) regulated activities under the SFO prior to their cease of operation and surrendering of the licenses) to the Group for the expansion and development of the Asset Management Business and the Securities Brokerage and Financial Services Business, and substantially all the revenue-generating customers under such business segments of the Yuanyin Group have been transferred to SYS and SYAM. The Group has started managing new funds including the Bloom Fixed Income Fund SP (a fund primarily invests in public traded fixed income products, which was a client transferred to SYAM from the Yuanyin Group) and several discretionary accounts, providing investment advisory services and engaging in DCM and ECM projects including bond issuance and underwriting for initial public offerings to further develop and expand its business. The Group has also resumed its product trading business to expand and diversify its source of revenue. With the implementation of the Business Plan, the Group's business performance has showed positive results for the two years ended 31 December 2022 despite the negative impact from COVID-19. According to the audited financial statements of the Group for the year ended 31 December 2021 and the year ended 31 December 2022, the Group has recorded (i) a revenue of approximately HK\$29.4 million and HK\$20.9 million from the Asset Management Business; (ii) a revenue of approximately HK\$12.3 million and HK\$27.7 million from the Securities Brokerage and Financial Services Business; and (iii) a revenue of approximately HK\$1.7 million and HK\$11.5 million from the trading business, for the year ended 31 December 2021 and 2022, respectively.

As disclosed in the annual results announcement of the Company for the year ended 31 December 2022 dated 22 March 2023, for the year ended 31 December 2022, the Group incurred a loss of approximately HK\$6 million and as of that date, had net current liabilities and net liabilities of approximately HK\$53 million and HK\$37 million respectively and the Convertible Bonds due in May 2023, which such conditions indicated that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern (the "**Going Concern Uncertainty**"). Upon conversion of the Convertible Bonds, the liability of the Group would substantially decrease by approximately HK\$149.4 million, which could result in the Company achieving a net current assets and net assets position instead of the current net liability position and allow the Group to regain the ability to obtain debt financing on competitive terms from independent third party investors or financial institutions in the near future. Considering the above, the Directors are of the view that the Proposed Conversion of the Convertible Bonds will ease the Going Concern Uncertainty.

INTENTION OF YUANYIN HOLDINGS ON CURRENT OPERATIONS

After the Completion of the Proposed Conversion of the Convertible Bonds, Yuanyin Holdings would become the controlling shareholder of the Company interested in approximately 68.37% of the issued share capital of the Company (assuming there is no other change in the issued share capital of the Company save for the issuance of such Conversion Shares).

LETTER FROM THE BOARD

Yuanyin Holdings and parties acting in concert with it have also informed the Company that they do not intend to introduce major changes to the Group's existing business and/or operations, the composition of the Board, fixed asset deployment and employment of the current employees. As at the Latest Practicable Date, Yuanyin Holdings has no intention, arrangement, agreement, understanding and negotiation (concluded or otherwise) on (i) injection of any other new business to the Group; (ii) any disposal, termination or scaling-down of the existing businesses of the Group; and (iii) any change in the shareholding structure of the Company save for its conversion of the Convertible Bonds. It is also the intention of Yuanyin Holdings to maintain the Company's listing on the Stock Exchange.

SGM

The SGM will be convened to approve, among other things, the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver by way of poll. Yuanyin Holdings and parties acting in concert with it and Shareholders who are involved in, or interested in, the Proposed Conversion of the Convertible Bonds and/or the Whitewash Waiver shall abstain from voting in respect of the resolutions at the SGM. As at the Latest Practicable Date, save for Yuanyin Holdings and parties acting in concert with it, no other Shareholder is required to abstain from voting in respect of the resolutions to approve the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder at the SGM.

For the purpose of determining the list of Shareholders who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from 15 May 2023 to 18 May 2023, both days inclusive, during which period no transfer of ordinary shares will be registered. In order to determine the identity of ordinary shareholder(s) who is entitled to attend and vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 12 May 2023.

A notice convening the SGM to be held at Meeting Room, 26/F, No. 238 Des Voeux Road Central, Sheung Wan, Hong Kong on 18 May 2023 at 10:00 a.m., is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM is also enclosed herewith. Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 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 the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

LETTER FROM THE BOARD

WARNING

Shareholders should take note that the Proposed Conversion of the Convertible Bonds is conditional upon satisfaction of conditions set out in the paragraph headed “Conversion Conditions of the Convertible Bonds” in this circular. The Whitewash Waiver is subject to the approval of the Executive and the Independent Shareholders at the SGM. The Executive and the Independent Shareholders may or may not approve the Whitewash Waiver. The Convertible Bonds may or may not be converted depending on whether the Whitewash Waiver is approved. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

RECOMMENDATION

The Directors are of the opinion that the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver are fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders should vote in favour of the resolutions set out in the notice of the SGM.

The Independent Board Committee, having taken into account the advice from Gram Capital, considers that the terms of the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder 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 and taking into account the independent advice of Gram Capital, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder.

Your attention is drawn to the letter from the Independent Board Committee set out on page 20 of this circular which contains its recommendation to the Independent Shareholders on the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder. Your attention is also drawn to the letter of advice from Gram Capital set out on pages 21 to 35 of this circular which contains, amongst other matters, its advice to the Independent Board Committee in relation to the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder, and the principal factors and reasons considered by it in arriving at such advice.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and On behalf of the Board
Sheng Yuan Holdings Limited
Zhou Quan
Executive Director



盛源控股有限公司

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

26 April 2023

To the Independent Shareholders

Dear Sir or Madam,

**(1) PROPOSED CONVERSION OF CONVERTIBLE BONDS
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular of the Company dated 26 April 2023 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you in relation to the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder, details of which are set out in the Circular. Gram Capital has been appointed as the Independent Financial Adviser to advise us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out in the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder and taking into account the independent advice of Gram Capital, we are of the opinion that the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend you to vote in favour of the resolutions to be proposed at the SGM to approve the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder.

Yours faithfully,

The Independent Board Committee

Mr. Zhang Jinfan

Ms. Huang Qin

Mr. Guo Yaoli

Independent non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee in respect of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver for the purpose of inclusion in this circular.



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

26 April 2023

To: The independent board committee of Sheng Yuan Holdings Limited

Dear Sir/Madam,

(I) PROPOSED CONVERSION OF THE CONVERTIBLE BONDS; AND (II) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 26 April 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 13 February 2023 (the “**Notice Date**”), the Company received a notice from Yuanyin Holdings of its intention to exercise the conversion rights in respect of the Convertible Bonds in full in the outstanding aggregate principal amount of HK\$150 million, subject to the Conversion Conditions.

Upon full conversion of the Convertible Bonds, 500,000,000 Conversion Shares will be issued to Yuanyin Holdings and therefore, Yuanyin Holdings and parties acting in concert with it will hold an aggregate of 603,017,000 Shares. The aggregate shareholding interests of Yuanyin Holdings and parties acting in concert with it will be increased from approximately 26.97% to approximately 68.37% of the issued share capital of the Company (as enlarged by the issuance of the Conversion Shares pursuant to the conversion of Convertible Bonds, assuming there is no other change in the issued share capital of the Company save for the issuance of such Conversion Shares).

Accordingly, Yuanyin Holdings would be obliged to make a mandatory general offer pursuant to Rule 26.1 of the Takeovers Code for all the issued Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) not already owned or

LETTER FROM GRAM CAPITAL

agreed to be acquired by Yuanyin Holdings and parties acting in concert with it as a result of the allotment and issuance of the Conversion Shares to Yuanyin Holdings by the Company, unless the Whitewash Waiver is granted by the Executive.

In this regard, an application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be conditional upon, among others, the conditions that the respective resolutions relating to the Proposed Conversion of the Convertible Bonds on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the SGM by way of poll.

The Independent Board Committee, comprising all the independent non-executive Directors who have no direct or indirect interest in the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder, namely Mr. Zhang Jinfan, Ms. Huang Qin and Mr. Guo Yaoli, has been formed to advise the Independent Shareholders with regard to the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver.

We, Gram Capital Limited, have been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in respect of (i) a connected transaction of the Company as set out in the Company's circular dated 29 April 2021; and (ii) confirmation of conversion price adjustment for the Convertible Bonds as set out in the Company's announcement dated 22 September 2022. Notwithstanding the aforesaid past engagements, as at the Latest Practicable Date, we were not aware of any relationship or interest between Gram Capital and the Company, Yuanyin Holdings and parties acting in concert with it, or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the

LETTER FROM GRAM CAPITAL

reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Disposal. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "1. RESPONSIBILITY STATEMENT" of Appendix II to the Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Yuanyin Holdings or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other relevant securities of the Company.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

1. Background of the Proposed Conversion of the Convertible Bonds

Reference is made to the Company's circular dated 29 April 2021 and announcement dated 21 May 2021. The Convertible Bonds Subscription Agreement and the transactions contemplated thereunder were approved by the then independent Shareholders on 14 May 2021. Completion of the transactions contemplated under the Convertible Bonds Subscription Agreement took place on 21 May 2021 and the Convertible Bonds in the aggregate principal amount of HK\$150 million were issued to Yuanyin Holdings.

LETTER FROM GRAM CAPITAL

On 13 February 2023, the Company received a notice from Yuanyin Holdings of its intention to exercise the conversion rights in respect of the Convertible Bonds in full in the outstanding aggregate principal amount of HK\$150 million, subject to the Conversion Conditions.

2. Information on the Group

With reference to the Board Letter, the Group is a Hong Kong based institution providing a wide range of financial services. The Group mainly conducts businesses in two business segments: (i) securities brokerage and financial services; and (ii) asset management. As advised by the Directors, the Group also have (a) proprietary trading segment for investment holding and securities trading which did not generate any revenue for the two years ended 31 December 2022; and (b) trading business segment for trading of chemical products and energy and minerals products.

Set out below is a summary of the audited consolidated financial information of the Group for the two years ended 31 December 2022 as extracted from the Company's annual results announcement (dated 22 March 2023) for the year ended 31 December 2022 (the "2022 AR Announcement"):

	For the year ended 31 December 2022 ("FY2022") HK\$'000	For the year ended 31 December 2021 ("FY2021") HK\$'000	Change from 2021 to 2022 %
Revenue	59,940	43,306	38.41
— <i>Securities brokerage and financial services</i>	27,666	12,268	125.51
— <i>Asset management services</i>	20,823	29,357	(29.07)
— <i>Trading business</i>	11,451	1,681	581.20
(Loss)/Profit for the year	(5,802)	4,650	N/A
	As at 31 December 2022 HK\$'000	As at 31 December 2021 HK\$'000	Change from 2021 to 2022 %
Cash and cash equivalents	79,929	69,100	15.67
Total current assets	198,709	131,317	51.32
Total non-current assets	15,979	27,590	(42.08)
Total current liabilities	(251,844)	(47,550)	429.64
Total non-current liabilities	—	(142,665)	(100)
Net current (liabilities)/assets	(53,135)	83,767	N/A
Net liabilities	(37,156)	(31,308)	18.68

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As illustrated in the table above, the Group's revenue increased by approximately 38.41% from approximately HK\$43 million for FY2021 to approximately HK\$60 million for FY2022. The Group's major revenue sources for FY2021 and FY2022 are (i) securities brokerage and financial services; (ii) asset management services; and (iii) trading business.

The Group recorded loss for FY2022, as compared to profit for FY2021. With reference to the 2022 AR Announcement, such change was mainly due to increases in certain expense items, including purchase of inventories for trading business, staff costs, finance costs, other expense and loss allowances on trade receivables.

As illustrated in the table above, the Group recorded net liabilities of approximately HK\$31 million as at 31 December 2021 (major liabilities items included (a) trade and other payables and accruals (current liabilities) of approximately HK\$42 million; and (b) the Convertible Bonds (non-current liabilities) with book amount of approximately HK\$140 million) and approximately HK\$37 million as at 31 December 2022 (major liabilities items included (a) trade and other payables and accruals (current liabilities) of approximately HK\$100 million; and (b) the Convertible Bonds (current liabilities) with book amount of approximately HK\$149 million). As the Convertible Bonds are due in May 2023, they were accounted for non-current liabilities as at 31 December 2021 and current liabilities as at 31 December 2022. Given the substantial amount of the Convertible Bonds and trade and other payables and accruals, the Group also recorded net current liabilities of approximately HK\$53 million as at 31 December 2022.

With reference to the 2022 AR Announcement, the Group's loss of approximately HK\$6 million for FY2022, net current liabilities of approximately HK\$53 million as at 31 December 2022, net liabilities of approximately HK\$37 million as at 31 December 2022 and the Convertible Bonds due in May 2023 may cast significant doubt on the Group's ability to continue as a going concern (the "**Going Concern Uncertainty**").

With reference to the 2022 AR Announcement, the Directors expect that there are still existences of uncertainties and adverse effects on the overall business of the Group with the weak economic conditions in Hong Kong. To cope with the challenging environments, the Group will continue to evaluate development opportunities to strengthen its competitive advantage through deploy more resources for seizing this market potential and broadening its revenue so as to generate value for Shareholders.

To further understand the operating environment of the Group's major business segments, being: (i) securities brokerage and financial services; and (ii) asset management, we found the following market information.

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Set out below are the numbers of listed companies, average daily turnover of the Hong Kong stock market and total turnover of futures and options in the Hong Kong derivatives market during the five years ended 31 December 2022, according to the statistics published by the SFC:

	2018	2019	2020	2021	2022
Number of listed companies	1,926	2,071	2,170	2,219	2,257
Average daily turnover (HK\$ million)	107,409	87,163	129,476	166,730	124,908
Total turnover of futures and options (contracts in thousands)	296,183	262,886	282,225	288,140	320,589

As shown in the above table, the number of listed companies in Hong Kong stock market had been increasing from 2018 to 2022. Nevertheless, the number of “annual increase” decreased from 145 in 2019 to 38 in 2022. Average daily turnover of the Hong Kong stock market fluctuated from 2018 to 2022. After a decrease in 2019, total turnover of futures and options in the Hong Kong derivatives market had been increasing from 2020 to 2022.

We also noted from a research paper titled “Research Paper No. 72: A Review of the Global and Local Securities Markets in 2022 (Featuring Market Turnover and Short Positions)” published by SFC on 10 February 2023 that, the market outlook may be affected by, among other things, the pace and scale of monetary tightening by major central banks, risks of a global recession, US dollar movements, ongoing geopolitical tensions in Ukraine, the policy stimulus to support the Mainland’s economic growth and the development of Sino-US relations.

The circumstances above indicated uncertainty of the Hong Kong financial market.

On the other hand, on 22 February 2023, the Financial Secretary of Hong Kong, namely, Mr. Chan Mo-po, Paul, delivered the speech of the 2023–2024 Budget, which outlined certain supportive measures, including:

- (i) After consulting the market, the Stock Exchange would introduce a listing regime for advanced technology companies in the first quarter of 2023 to expand the listing channel for issuers. The Stock Exchange will also put forward specific reform recommendations on Growth Enterprise Market of the Stock Exchange within 2023 after carefully considering the views of various market players on the financing needs of small and medium-sized enterprises and start-ups, and consult stakeholders. (On 24 March 2023, the Stock Exchange also announced the expansion of Hong Kong’s listing framework for the listings of specialist technology companies.)
- (ii) The Stock Exchange will explore ways to further enhance the Listing Rules with the SFC in order to strike a balance between market development and regulatory needs, including relevant arrangement concerning share buy-backs by issuers.

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- (iii) The Stock Exchange will also study a series of proposals on the optimisation of the trading mechanism, which include exploring arrangements for maintaining operation of the market under inclement weathers and reviewing the self-trade prevention function as well as the relevant restrictions, so as to facilitate transactions of investors and dovetail with the market trend.
- (iv) In recent years, the Exchange Fund of Hong Kong has established alternative asset portfolios with dedicated allocation to smaller local managers. As a next step, such portfolios will cover also private equity funds managed by smaller local managers and those seeking to expand their Hong Kong operations in order to support their continued growth there. In addition, the Exchange Fund of Hong Kong will identify and increase allocation to funds that focus on sustainable investment to help consolidate Hong Kong's position as the region's leading sustainable finance platform.
- (v) On wealth management, regulators will on a risk-based principle and subject to appropriate protection for investors, streamline the suitability assessment and disclosure process for sophisticated or ultra-high net worth individual clients. Moreover, the Hong Kong government will review the existing tax concession measures applicable to funds and carried interest.

The above measures are supportive to the Hong Kong financial markets. Nevertheless, their actual effects and influences are undetermined at present.

3. Information on Yuanyin Holdings

With reference to the Board Letter, Yuanyin Holdings, a company incorporated in the British Virgin Islands with limited liability which, together with its subsidiaries, was interested in 103,017,000 Shares, representing approximately 26.97% of the total issued share capital of the Company as at Latest Practicable Date. It is principally engaged in investment holding which includes its capital investment in its subsidiaries and its investment in stocks and funds including its investment holding in the Company.

4. Reasons for and benefits of the Proposed Conversion of the Convertible Bonds

With reference to the Board Letter, as disclosed in the Convertible Bonds Circular, it is the intention of the Yuanyin Group to convert the Convertible Bonds in full pursuant to the terms and conditions of the Convertible Bonds Subscription Agreement and to acquire majority stake in the Company. Holding more than 50% of the total issued share capital of the Company will give Yuanyin Holdings a controlling interest in the Group, and the shareholders of Yuanyin Holdings will therefore also have more incentive in devoting resources of the Yuanyin Group into the Group after Yuanyin Holdings becomes a majority shareholder of the Company, which will further enhance the continuing implementation of the business plan of the Company at both operational and financial levels, including, among others, the expansion and development of its Asset Management Business, the Securities Brokerage and Financial Services Business and other business such as consultancy services. The Group has completed the recruitment of the senior personnel from the then licensed entities under the Yuanyin Group (i.e. Yuanyin Securities Limited and Yuanyin Asset Management Limited, which were

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licensed to carry out type 1 (dealing in securities), type 4 (advisory on securities) and/or type 9 (asset management) regulated activities under the SFO prior to their cease of operation and surrendering of the licenses) to the Group for the expansion and development of the Asset Management Business and the Securities Brokerage and Financial Services Business, and substantially all the revenue-generating customers under such business segments of the Yuanyin Group have been transferred to SYS and SYAM. The Group has started managing new funds including the Bloom Fixed Income Fund SP (a fund primarily invests in public traded fixed income products, which was a client transferred to SYAM from the Yuanyin Group) and several discretionary accounts, providing investment advisory services and engaging in DCM and ECM projects including bond issuance and underwriting for initial public offerings to further develop and expand its business. The Group has also resumed its product trading business to expand and diversify its source of revenue. Upon full conversion of the Convertible Bonds, Yuanyin Holdings will become a controlling Shareholder. As advised by the Directors, Yuanyin Holdings will continue to support the Group's business development. Having considered the above, the Proposed Conversion of the Convertible Bonds will strengthen the relationship between the Company and Yuanyin Holdings and is favourable to the Group's business development.

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

As illustrated under the section headed "2. Information on the Group" above, the Going Concern Uncertainty was caused by the Group's loss of approximately HK\$6 million for FY2022, net current liabilities of approximately HK\$53 million as at 31 December 2022, net liabilities of approximately HK\$37 million as at 31 December 2022 and the Convertible Bonds due in May 2023. As at the Latest Practicable Date, the outstanding principal amount of the Convertible Bonds was HK\$150 million. Given the above, we consider that the Proposed Conversion of the Convertible Bonds will ease the Going Concern Uncertainty.

5. Conversion Price

The Conversion Price is HK\$0.3 and:

- (i) represents a discount of approximately 25.0% to the closing price of HK\$0.4 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) equals to the closing price of HK\$0.3 per Share as quoted on the Stock Exchange on 13 February 2023, being the Notice Date;
- (iii) equals to the average closing price of HK\$0.3 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the Notice Date;

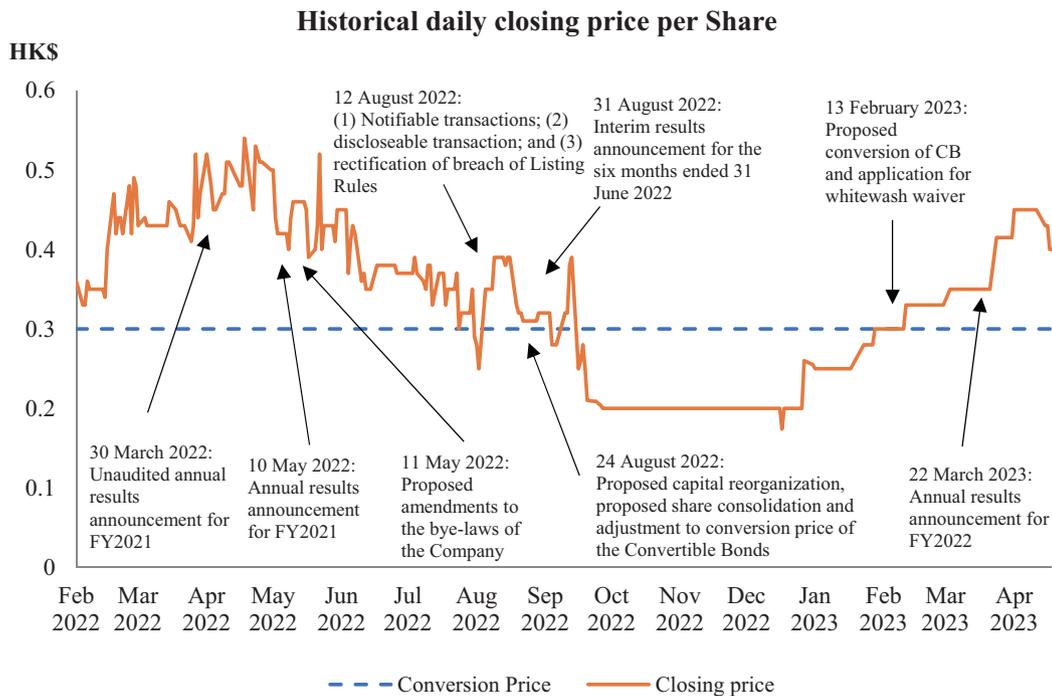
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- (iv) equals to the adjusted closing price of HK\$0.3 per Share as quoted on the Stock Exchange on 1 April 2021, being the date of the Convertible Bonds Subscription Agreement; and
- (v) represents a premium of approximately HK\$0.4 over the audited net liabilities per Share of approximately HK\$0.1 as at 31 December 2022 (the “**Premium Over Net Liabilities**”), as calculated based on the Group’s audited net liabilities of HK\$37,156,000 as at 31 December 2022 and 381,970,541 Shares in issue as at the Latest Practicable Date.

In order to assess the fairness and reasonableness of the Conversion Price, we conducted the following analysis:

a) *Share price performance*

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 4 February 2022 to the Latest Practicable Date, being a period covering (i) approximately one year prior to and including the Notice Date; and (ii) the period from the Notice Date to the Latest Practicable Date (the “**Share Review Period**”). The comparison of closing prices of the Shares and Conversion Price is illustrated as follows:



Source: the Stock Exchange’s website

During the Share Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.540 per Share recorded on 21 April 2022 and HK\$0.174 recorded on 20 December 2022. The Conversion Price falls within the closing price range of the Shares during the Share Review Period.

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As depicted from the above chart, the closing prices of the Shares fluctuated between HK\$0.200 and HK\$0.540 from 4 February 2022 to 30 September 2022. Subsequently, the closing prices of the Shares remained unchanged at HK\$0.200 up to 19 December 2022 and dropped to HK\$0.174 on 20 December 2022. Thereafter, the closing prices of the Shares recovered and formed a general uprising trend up to the Latest Practicable Date.

b) Comparables

As part of our analysis, we also attempted to identify conversion of convertible bonds/notes with whitewash waiver application which were announced by companies listed on the Stock Exchange during the period from 4 February 2022 to the Notice Date, being a period covering approximately one year prior to and including the Notice Date. We consider a 1-year period would allow sufficient, fair and representative comparable cases to demonstrate the market practice prior to and including the Notice Date. Nevertheless, we could not identify any comparable transaction which met the said criteria. Alternatively, we identified transactions in relation to the subscription of convertible bonds/notes under specific mandate which were announced by companies listed on the Stock Exchange during the period from 4 February 2022 to the Notice Date (the “**Comparables**”). To the best of our knowledge and as far as we are aware of, we found 12 transactions which met the said criteria and the list of the Comparables is exhaustive. Although the transaction nature of the Comparables is not the same with the Proposed Conversion of the Convertible Bonds, the Comparables can provide an alternative comparison regarding conversion price. Shareholders should also note that the businesses, operations and prospects of the Company are not the same as the Comparables. Details of the Comparables are set out below:

Company name (Stock code)	Date of announcement	Premium/(Discount) of the conversion price over/to closing price per share on the date of agreement in relation to the respective subscription of convertible bonds/ notes (%)	Premium/(Discount) of the conversion price over/to average closing price per share for the five consecutive trading days immediately prior to the date of agreement in relation to the respective subscription of convertible bonds/ notes (%)
Capital Finance Holdings Limited (8239)	4 April 2022	61.29	62.34
China Baoli Technologies Holdings Limited (164)	21 April 2022	4.48	3.86
Huazhang Technology Holding Limited (1673)	13 May 2022	Nil	(2.83)

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Company name (Stock code)	Date of announcement	Premium/(Discount) of the conversion price over/to closing price per share on the date of agreement in relation to the respective subscription of convertible bonds/ notes (%)	Premium/(Discount) of the conversion price over/to average closing price per share for the five consecutive trading days immediately prior to the date of agreement in relation to the respective subscription of convertible bonds/ notes (%)
Anchorstone Holdings Limited (1592)	10 June 2022	(10.00) <i>(Note 1)</i>	(10.00) <i>(Note 1)</i>
Grand Field Group Holdings Limited (115)	5 September 2022	15.15	15.15
Huscoke Holdings Limited (704)	19 September 2022	(30.49) <i>(Note 2)</i>	(31.61) <i>(Note 3)</i>
Beijing Gas Blue Sky Holdings Limited (6828)	26 September 2022	12.38	2.08
Winshine Science Company Limited (209)	14 October 2022	13.64	9.65
Ev Dynamics (Holdings) Limited (476)	20 October 2022	(10.00) <i>(Note 4)</i>	(10.00) <i>(Note 4)</i>
Merdeka Financial Group Limited (8163)	14 November 2022	14.81	14.81
CCT Fortis Holdings Limited (138)	16 November 2022	10.34	5.82
Wai Chun Bio-Technology Limited (660)	22 December 2022	25.00	32.98
Maximum		61.29	62.34
Minimum		(30.49)	(31.61)
Average		8.88	7.69
The Conversion Price		Nil	Nil

Source: the Stock Exchange's website

Notes:

1. According to the transaction announcement, the conversion price shall be 90% of the average closing price per share (subject to adjustment) on any five consecutive business days as selected by the noteholder during the 45 business days immediately preceding the relevant conversion date on which shares were traded on the Stock Exchange. Hence, we adopted a discount of 10% in this analysis.
2. Based on the share closing price on the last trading day prior to the suspension of trading of the shares from 29 March 2021.

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3. Based on the average share closing price for the five consecutive trading days immediately prior to the last trading day prior to the suspension of trading of the shares from 29 March 2021.
4. According to the transaction announcement, the convertible notes shall be converted into new shares at the discretion of the subscriber at 90% of the average of the closing prices per share on any 3 consecutive business days during the 30 business days immediately preceding the relevant conversion date of the convertible notes. Hence, we adopted a discount of 10% in this analysis.

We noted from the above table that (i) the conversion prices of the Comparables ranged from a discount of approximately 30.49% to a premium of approximately 61.29% with average premium of approximately 8.88% to/over the respective closing prices of the shares on the date of agreement in relation to the respective subscription of convertible bonds/notes (the “**Agreement Date Discount/Premium Market Range**”); and (ii) the conversion prices of the Comparables ranged from a discount of approximately 31.61% to a premium of approximately 62.34% with average premium of approximately 7.69% to/over respective average closing price per share for the five consecutive trading days immediately prior to the date of agreement in relation to the respective subscription of convertible bonds/notes (the “**5-Day Discount/Premium Market Range**”). As such, the Conversion Price, which equals to the closing price of the Shares on the Notice Date and the average closing price per Share for the five consecutive trading days immediately prior to the Notice Date, falls within both of the Agreement Date Discount/Premium Market Range and the 5-Day Discount/Premium Market Range.

Having considered above comparisons, the Premium Over Net Liabilities and that the Conversion Price falls within the closing price range of the Shares during the Share Review Period, we are of the view that the Conversion Price is fair and reasonable.

6. Financial effects of the Proposed Conversion of the Convertible Bonds

Effect on net liabilities/net current liabilities

According to the 2022 AR Announcement, the Group’s net current liabilities was approximately HK\$53 million and net liabilities was approximately HK\$37 million as at 31 December 2022. As advised by the Directors, completion of the Proposed Conversion of the Convertible Bonds (the Convertible Bonds were booked as current liabilities (approximately HK\$149 million) as at 31 December 2022) is expected to reduce the Group’s current liabilities by approximately HK\$149 million and turnaround the aforesaid net current liabilities and net liabilities positions of the Group.

Effect on gearing

According to the 2022 AR Announcement, the Group’s gearing ratio, measured as total debts to total assets, was approximately 70% as at 31 December 2022. As advised by the Directors, completion of the Proposed Conversion of the Convertible Bonds is expected to reduce the aforesaid gearing ratio to zero.

Effect on liquidity

According to the 2022 AR Announcement, the Group's cash and cash equivalents were approximately HK\$80 million. As advised by the Directors, completion of the Proposed Conversion of the Convertible Bonds is expected to avoid cash outflow for redemption of the Convertible Bonds at maturity (in May 2023) and repayment of relevant interest (if any) (If the Convertible Bonds are converted prior to maturity, interest payable from conversion date to maturity date can be saved). As the conversion date was not fixed as at the Latest Practicable Date, it is uncertain as to whether there is any interest that can be saved. For illustration purpose only, interest payable is HK\$1.5 million per annum as the Convertible Bonds bear interest rate of 1% per annum).

7. Dilution effect on the shareholding interests of the public Shareholders

With reference to the shareholding table in the section headed "EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" of the Board Letter, the shareholding interests of the public Shareholders would be diluted by approximately 41.40 percentage points immediately after completion of the Proposed Conversion of the Convertible Bonds.

Taking into account (i) the aforementioned reasons for and benefits of the Proposed Conversion of the Convertible Bonds; and (ii) that the Convertible Bonds Subscription Agreement and the transactions contemplated thereunder were approved by the then independent Shareholders on 14 May 2021 and the Proposed Conversion of the Convertible Bonds is only the exercise of the conversion rights attaching to the Convertible Bonds which was previously granted to Yuanyin Holdings, we are of the view that the aforesaid dilution is acceptable.

8. The Whitewash Waiver

With reference to the Board Letter, according to the terms and conditions of the Convertible Bonds, the conversion of the Convertible Bonds is subject to fulfillment of the following Conversion Conditions:

- (i) the Listing Committee having granted (either unconditional or subject only to conditions to which Yuanyin Holdings does not reasonably object) the listing of and permission to deal in, the Conversion Shares;
- (ii) with respect to Yuanyin Holdings' exercise of its conversion right as a holder of the Convertible Bonds:
 - (a) the Whitewash Waiver being granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligations on Yuanyin Holdings to make a mandatory offer for all the issued Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than those already owned or agreed to be acquired by Yuanyin Holdings and parties acting in concert with it as a result of the Company allotting and issuing of the Conversion Shares (if required) and not having been withdrawn;

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- (b) the respective resolutions relating to the Proposed Conversion of the Convertible Bonds on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the SGM by way of poll;
 - (c) the granting of the approval from the SFC in relation to the change of substantial shareholder(s) (as defined in the SFO) of each of the licensed corporations within the Group upon the issuance of the Conversion Shares; and
- (iii) the public float of the Shares having not fallen below the minimum requirement under Rule 8.08(1)(a) of the Listing Rules or as required by the Stock Exchange immediately upon such conversion.

The Yuanyin Holdings has the right as to whether or not to waive condition (ii)(a) above. Yuanyin Holdings does not reserve the right to waive condition (ii)(a) and condition (ii)(b) above (the “**WW Conditions**”). If any of the WW Conditions is not fulfilled, the Proposed Conversion of the Convertible Bonds will not take place and the notice from Yuanyin Holdings of its intention to exercise the conversion rights in respect of the Convertible Bonds will be deemed to be withdrawn.

With reference to the Board Letter, as at the Latest Practicable Date, Yuanyin Holdings was a substantial Shareholder which, together with parties acting in concert with it, is interested in (i) 103,017,000 Shares, representing approximately 26.97% of the total issued share capital of the Company; and (ii) the Convertible Bonds in an aggregate outstanding principal amount of HK\$150 million.

Upon full conversion of the Convertible Bonds, 500,000,000 Conversion Shares will be issued to Yuanyin Holdings and therefore, Yuanyin Holdings and parties acting in concert with it will hold an aggregate of 603,017,000 Shares. The aggregate shareholding interests of Yuanyin Holdings and parties acting in concert with it will be increased from approximately 26.97% to approximately 68.37% of the issued share capital of the Company (as enlarged by the issuance of the Conversion Shares pursuant to the conversion of Convertible Bonds, assuming there is no other change in the issued share capital of the Company save for the issuance of such Conversion Shares).

Accordingly, Yuanyin Holdings would be obliged to make a mandatory offer pursuant to Rule 26.1 of the Takeovers Code for all the issued Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) not already owned or agreed to be acquired by Yuanyin Holdings and parties acting in concert with it as a result of the allotment and issuance of the Conversion Shares to Yuanyin Holdings by the Company, unless the Whitewash Waiver is granted by the Executive.

In this regard, an application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be conditional upon, among others, the conditions that the respective resolutions relating to the Proposed Conversion of the Convertible Bonds

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on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the SGM by way of poll.

Having considered that:

- (i) The Proposed Conversion of the Convertible Bonds will ease the Going Concern Uncertainty caused by the Group's loss for FY2022, net liabilities/net current liabilities as at 31 December 2022 and the Convertible Bonds;
- (ii) the possible financial effect as set out under the section headed "6. Financial effects of the Proposed Conversion of the Convertible Bonds" above;
- (iii) the Conversion Price is fair and reasonable as concluded under the section headed "5. Conversion Price" above;
- (iv) the dilution effect of the Proposed Conversion of the Convertible Bonds on the shareholding interests of the public Shareholders is acceptable; and
- (v) if any of the WW Conditions is not fulfilled, the Proposed Conversion of the Convertible Bonds will not take place,

we consider that the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into consideration the factors as set out above, we consider that the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver.

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

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

1. FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2022 as extracted from the audited financial statements set out in the 2022 annual results announcement of the Company dated 22 March 2023 and the 2021 and 2020 annual reports of the Company. Save as disclosed under the paragraph headed “Historical Material Uncertainty Related to Going Concern” below, the auditor’s reports from BDO Limited in respect of the Group’s audited consolidated financial statements for the three years ended 31 December 2020, 31 December 2021 and 31 December 2022 respectively did not contain other modified opinion, emphasis of matter or material uncertainty related to going concern.

	For the year ended 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
Revenue	44,549	43,306	59,940
Profit/(Loss) before income tax/taxation	14,473	10,358	(3,681)
Income tax expense/Taxation	(2,467)	(5,708)	(2,121)
Profit/(Loss) for the period (attributable to owners of the Company)	12,006	4,650	(5,802)
Other comprehensive income for the year/ period	10	(4)	(46)
Total comprehensive income for the year/ period (attributable to owners of the Company)	12,016	4,646	(5,848)
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
— Basic	0.31	0.12	(1.52)
— Diluted	0.31	0.12	(1.52)

No dividend was paid or declared by the Company during the three years ended 31 December 2020, 31 December 2021 and 31 December 2022.

	31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
Assets and Liabilities			
Non-current assets	10,823	27,590	15,979
Current assets	69,089	131,317	198,709
Current liabilities	20,984	47,550	251,844
Net current (liabilities)/assets	48,105	83,767	(53,135)
Non-current liabilities	109,690	142,665	—
Net assets/(liabilities)	(50,762)	(31,308)	(37,156)

Historical Material Uncertainty Related to Going Concern

As disclosed in the auditor's reports from BDO Limited in respect of the Group's audited consolidated financial statements for the year ended 31 December 2020, as at 31 December 2020, the Group had net liabilities of approximately HK\$51 million that included borrowings with a principal amount of approximately HK\$100 million from a wholly-owned subsidiary of Yuanyin Holdings, which would then be due in January 2022. The above conditions indicated the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern at the relevant time.

As disclosed in the auditor's reports from BDO Limited in respect of the Group's audited consolidated financial statements for the year ended 31 December 2021, as at 31 December 2021, the Group had net liabilities of approximately HK\$31 million and as of that date, the Group had a convertible bonds with a principal amount of HK\$150 million issued which will be due in May 2023. The above events and conditions indicated that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern at the relevant time.

As disclosed in the annual results announcement of the Company for the year ended 31 December 2022, for the year ended 31 December 2022, the Group incurred a loss of approximately HK\$6 million and as of that date, had net current liabilities and net liabilities of approximately HK\$53 million and HK\$37 million respectively and the Group had a convertible bonds with a principal amount of HK\$150 million issued which will be due in May 2023. The above conditions indicated that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern at the relevant time.

CONSOLIDATED FINANCIAL STATEMENTS

Details of the audited consolidated financial statements of the Group for the three years ended 31 December 2020, 2021 and 2022 respectively are disclosed in the following documents; which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.shengyuanhk.com).

- (i) The audited financial information of the Group for the year ended 31 December 2022 is disclosed in the annual results announcement of the Company for the year ended 31 December 2022 published on 22 March 2023, from pages 2 to 21:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0322/2023032201439.pdf>

- (ii) The audited financial information of the Group for the year ended 31 December 2021 is disclosed in the annual report of the Company for the year ended 31 December 2021 published on 22 April 2022, from pages 54 to 155:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0512/2022051200296.pdf>

- (iii) The audited financial information of the Group for the year ended 31 December 2020 is disclosed in the annual report of the Company for the year ended 31 December 2020 published on 29 April 2021, from pages 52 to 155:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042900877.pdf>

2. INDEBTEDNESS

As at the close of business on 31 January 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining the information contained in this indebtedness statement, the Group had total indebtedness of HK\$152,228,000, details of which are set out as follows:

	<i>HK\$'000</i>
Convertible bonds with principal amount of HK\$150,000,000	150,174
Unsecured and unguaranteed lease liabilities	<u>2,054</u>
	<u><u>152,228</u></u>

The Group did not, at the close of business on 31 January 2023, have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, borrowings or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptance (other than normal trade bills and payables), acceptance credits, or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 31 January 2023.

3. MATERIAL CHANGES

The Directors confirm that there was no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the Company.

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

As at the Latest Practicable Date, the board of Yuanyin Holdings consisted of Mr. Ma Baojun, Mr. Zhao Yun, Mr. Huang Shuanggang, Mr. Liu Zilei and Mr. Du Tianzheng. The directors of Yuanyin Holdings jointly and severally accept full responsibilities for the accuracy of the information contained in this circular relating to Yuanyin Holdings and parties acting in concert with it and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular by the directors of Yuanyin Holdings have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

II. MARKET PRICES

The table below shows the closing price of the Shares as quoted by the Stock Exchange on: (i) the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the last day on which trading took place in each of the calendar months during the Relevant Period:

Date	Closing price per Share (HK\$)
31 August 2022	0.31
30 September 2022	0.2
31 October 2022	0.2
30 November 2022	0.2
30 December 2022	0.26
31 January 2023	0.3
10 February 2023, being the Last Trading Day	0.3
28 February 2023	0.33
31 March 2023	0.415
21 April 2023, being the Latest Practicable Date	0.4

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK\$0.39 on 15 August 2022, 16 August 2022, 18 August 2022, 19 August 2022 and 16 September 2022, and HK\$0.174 on 20 December 2022, respectively.

The Conversion Price is the same as the closing price of HK\$0.3 per Share as quoted by the Stock Exchange on 10 February 2023, being the Last Trading Day.

III. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and Shares to be issued upon the completion of the Proposed Conversion of the Convertible Bonds were and will be as follows:

	Number of Shares	Nominal value HK\$'
Authorised:		
As at the Latest Practicable Date	<u>6,000,000,000</u>	<u>600,000,000</u>
Issued and fully paid:		
As at the Latest Practicable Date	381,970,541	38,197,054
Shares to be issued upon the completion of the Proposed Conversion of the Convertible Bonds	<u>500,000,000</u>	<u>50,000,000</u>
Upon the completion of the Proposed Conversion of the Convertible Bonds	<u>881,970,541</u>	<u>88,197,054</u>

All the issued Shares rank *pari passu* in all respects with each other, including, as to dividends, voting rights and return of capital. No part of the equity or debt securities of the Company is listed or dealt in, nor is listing or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

The Shares to be issued upon the completion of the Proposed Conversion of the Convertible Bonds, will rank *pari passu* in all respects among themselves and with the Shares then in issue, including as to voting rights, return on capital and the rights to any dividends or distributions made or declared on or after the date of allotment of such Shares.

Since 31 December 2022 (the date to which the latest published audited financial statements of the Company were made up), and up to the Latest Practicable Date, no new Shares had been issued by the Company and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares.

There has been no alteration in the issued capital of the Company or proposed to be issued since 31 December 2022 (the date to which the latest published audited financial statements of the Company were made up).

As at the Latest Practicable Date, save and except for the Convertible Bonds, the Company had no outstanding options, warrants or other securities in issue which are convertible into or giving rights to subscribe for, convert or exchange into Shares.

IV. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code, or required to be disclosed under the Takeovers Code.

Interests of substantial Shareholders

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

Name of Substantial Shareholders	Nature of Interest	Total Number of Shares⁽⁴⁾	Approximate Percentage of Shareholding in Issued Share Capital of the Company as at the Latest Practicable Date
Yuanyin Holdings ⁽¹⁾	Beneficial owner	1,011,000,000(L)	26.47%
	Interest of corporation controlled	19,170,000(L)	0.50%
Ms. Zhao Jianyun	Beneficial owner	357,142,857(L)	9.35%
Mr. Meng Hao Xiang ⁽²⁾	Interest of spouse	357,142,857(L)	9.35%
Mr. Shao Yongchao	Beneficial owner	300,000,000(L)	7.85%
Ms. Cao Haixia ⁽³⁾	Interest of spouse	300,000,000(L)	7.85%

Notes:

- (1) As at the Latest Practicable Date, the 1,030,170,000 Shares which Yuanyin Holdings was interested in under Part XV of the SFO include (i) 1,011,000,000 Shares directly held by Yuanyin Holdings; and (ii) 19,170,000 Shares indirectly held through Yuanyin International Limited (a wholly-owned subsidiary of Yuanyin Holdings).

- (2) Ms. Zhao Jianyun is the spouse of Mr. Meng Hao Xiang and was the beneficial owner of 357,142,857 Shares. Mr. Meng Hao Xiang was deemed to be interested in such 357,142,857 Shares within the meaning of Part XV of the SFO.
- (3) Mr. Shao Yongchao is the spouse of Ms. Cao Haixia and was the beneficial owner of 300,000,000 Shares. Ms. Cao Haixia was deemed to be interested in such 300,000,000 Shares within the meaning of Part XV of the SFO.
- (4) (L) — long position.

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

V. ARRANGEMENTS IN CONNECTION WITH THE PROPOSED CONVERSION OF CONVERTIBLE BONDS

- (i) there was no agreement, arrangement or understanding (including any compensation arrangement) exist between any of Yuanyin Holdings or any parties acting in concert with it with any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the outcome of the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder;
- (ii) there were no benefits given or to be given to any Directors as compensation for loss of office or otherwise in connection with the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder;
- (iii) there was no agreement or arrangement between any Directors and any other person which is conditional on, dependent upon, or otherwise connected with the outcome of the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder;
- (iv) there was no material contract had been entered into by Yuanyin Holdings in which any Director had a material personal interest;
- (v) there was no agreement, arrangement or understanding for any of the Shares to be issued upon the conversion of the Convertible Bonds and/or the Convertible Bonds to be transferred, charged or pledged to any other persons;
- (vi) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and of Yuanyin Holdings and which might be material to the Proposed Conversion of the Convertible Bonds and/or the Whitewash Waiver;

- (vii) apart from the consideration paid by Yuanyin Holdings to the Company for the Subscription of the Convertible Bonds pursuant to the Convertible Bonds Subscription Agreement, there was no other consideration, compensation or benefit in whatever form paid or to be paid by Yuanyin Holdings or any parties acting in concert with it to the Company or any party acting in concert with the Company in connection with the Subscription and the Proposed Conversion of the Convertible Bonds;
- (viii) apart from the Convertible Bonds Subscription Agreement, there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between Yuanyin Holdings or any party acting in concert with it on one hand and the Company and any party acting in concert with it on the other hand;
- (ix) there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between any shareholders of the Company and Yuanyin Holdings and any party acting in concert with it; and
- (x) there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between any shareholders of the Company and the Company, its subsidiaries or associated companies.

VI. SHAREHOLDINGS OF AND DEALINGS IN THE SECURITIES OF THE COMPANY AND YUANYIN HOLDINGS

As at the Latest Practicable Date:

- (i) the Company did not hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of Yuanyin Holdings, and it had not dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeover Code) of Yuanyin Holdings during the Relevant Period;
- (ii) none of the Directors held any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, and none of the Directors had any interest in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of Yuanyin Holdings nor had they dealt for value in any shares and any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or Yuanyin Holdings during the Relevant Period;
- (iii) none of the subsidiaries of the Company, pension fund of the Company or any of its subsidiaries, any persons presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” in the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” in the Takeovers Code (but excluding exempt principal traders and exempt fund managers), held any relevant securities (as defined in Note 4 to Rule 22 of the Takeover Code) of the Company, and none of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeover Code) of the Company during the Relevant Period;

- (iv) save for the transactions contemplated under the Proposed Conversion of the Convertible Bonds, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert" under the Takeovers Code or who was an associate of the Company by virtue of classes (2), (3) and (4) of the definition of "associate" under the Takeovers Code and no such persons had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;
- (v) no fund managed on a discretionary basis by any fund manager (other than exempt fund managers) connected with the Company had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period; and
- (vi) neither the Company nor any of the Directors has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

As at the Latest Practicable Date, other than the 26.97% voting rights in the Company controlled by Yuanyin Holdings and parties acting in concert with it as set out in the section headed "Effects on the Shareholding Structure of the Company" in the Letter from the Board in this circular and the section headed "Interests of substantial Shareholders" in this Appendix II:

- (i) neither Yuanyin Holdings nor parties acting in concert with it owned or had control or direction over any further voting rights or rights over the Shares or any outstanding options, warrants, or any securities that were convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company;
- (ii) there was no dealings in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company by either Yuanyin Holdings or parties acting in concert with it, the director(s) and substantial shareholder(s) of Yuanyin Holdings and the Company during the Relevant Period;
- (iii) other than the Proposed Conversion of the Convertible Bonds, neither Yuanyin Holdings nor parties acting in concert with it had acquired or disposed or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company during the Relevant Period;
- (iv) neither Yuanyin Holdings nor parties acting in concert with it will make any acquisitions or disposals of voting rights in the Company in the period between the Latest Practicable Date and the completion of the Proposed Conversion of the Convertible Bonds and/or Whitewash Waiver;

- (v) there were no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company had been borrowed or lent by Yuanyin Holdings and parties acting in concert with it;
- (vi) save for the transactions contemplated under the Proposed Conversion of the Convertible Bonds, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Yuanyin Holdings and parties acting in concert with it;
- (vii) neither Yuanyin Holdings nor parties acting in concert with it had received any irrevocable commitment from any Independent Shareholders as to whether they will vote for or against the Proposed Conversion of the Convertible Bonds, the Whitewash Waiver and the transactions contemplated thereunder at the SGM; and
- (viii) none of the directors of Yuanyin Holdings or any parties acting in concert with it owned or controlled any Shares, warrants, options, derivatives or convertible securities, of the Company, and none of them have dealt for value in any such securities of the Company during the Relevant Period.

VII. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, saved as disclosed below, none of the Directors had entered into a service contract with the Company or any of its subsidiaries or associated companies (as defined under the Takeovers Code), which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Proposed Conversion Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period:

- (i) Mr. Guo Yaoli, as an independent non-executive Director, signed a letter of appointment with the Company for a term of one year commencing from 21 November 2022 and expiring on 20 November 2023, subject to renewal unless terminated by either party. The remuneration of Mr. Guo Yaoli is HK\$10,000 per month, and there is no variable remuneration payable under the letter of appointment.

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the date of this circular, which was significant to the business of the Group.

IX. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Proposed Conversion Announcement and up to the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business of the Group) were entered into by the Company and/or members of the Group and is or may be material to the Group:

- (i) the Convertible Bonds Subscription Agreement dated 1 April 2021 entered into between the Company and Yuanyin Holdings, pursuant to which Yuanyin Holdings agreed to subscribed for and the Company agreed to issue the Convertible Bonds in the aggregate principal amount of HK\$150 million at the interest rate of 1% per annum;
- (ii) the Kingwell Notes Subscription Agreement dated 6 September 2021 entered into between Kingwell Management (a wholly-owned subsidiary of the Company, as the issuer) and Flourishing (as the subscriber), pursuant to which Flourishing agreed to subscribed for and Kingwell Management agreed to issue the Kingwell Notes in the principal amount of US\$27,080,000 at the interests rate of 12.5% notes per annum;
- (iii) the Triparty Agreement dated 11 September 2021 entered into among Kingwell Management, Flourishing and Sheng Yuan Investment Advisors (a wholly-owned subsidiary of the Company) in relation to, among others, the Sheng Yuan's Proprietary Investment and the Flourishing Fund's Subscriptions and the repayment obligations for Kingwell Management; and
- (iv) the Atta Notes Purchase Agreement dated 15 September 2021 entered into between Atta Asset (as the issuer) and Kingwell Management (as the purchaser), pursuant to which Kingwell Management agreed to subscribe for and Atta Asset agreed to issue the Atta Notes in the principal amount of US\$20,000,000 with the subscription amount of US\$10,000,000.

X. MATERIAL LITIGATION

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

XI. EXPERT AND CONSENT

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

Name	Qualification
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

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

As at the Latest Practicable Date, Gram Capital did not have had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up.

Gram Capital has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter or the references to its name in the form and context in which it appears respectively.

XII. MISCELLANEOUS

- (i) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company in Hong Kong is situated at 26/F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong.
- (ii) The company secretary of the Company is Mr. Chiu Ming King, an executive director of corporate services of Vistra Corporate Services (HK) Limited. Mr. Chiu is a fellow member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators.
- (iii) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (iv) The registered office of Yuanyin Holdings is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The directors of Yuanyin Holdings comprises Mr. Ma Baojun, Mr. Zhao Yun, Mr. Huang Shuanggang, Mr. Liu Zilei and Mr. Du Tianzheng. The correspondence address of Yuanyin Holdings in Hong Kong is Room 2503, 25/F, 238 Des Voeux Road Central, Hong Kong.
- (v) The registered address of Yuanyin International is at Room 2503, 25/F, 238 Des Voeux Road Central, Hong Kong. The directors of Yuanyin International comprises Mr. Zhou Quan and Mr. Zhao Yun.
- (vi) In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version to the extent of such inconsistency.

XIII. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the website of the Company (www.shengyuanhk.com); (ii) on the website of the Securities and Futures Commission (www.sfc.hk); (iii) on the website of the Stock Exchange (www.hkexnews.hk); and (iv) at the principal place of business of the Company in Hong Kong at 26/F, 238 Des Voeux Road Central, Sheung Wan, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday (except public holidays) from the date of this circular up to and including the date of the SGM:

- (i) the memorandum of association and the bye-laws of the Company;
- (ii) the memorandum of association and the articles of association of Yuanyin Holdings;
- (iii) the annual reports of the Company for the two financial years ended 31 December 2020 and 2021;
- (iv) the annual results announcement of the Company for the year ended 31 December 2022 dated 22 March 2023;
- (v) the written consent referred to under the paragraph headed “XI. Experts and Consent” in this Appendix;
- (vi) the Letter from the Board, the text of which is set out on pages 8 to 19 of this circular;
- (vii) the Letter from Gram Capital, the text of which is set out in this circular;
- (viii) the Letter from the Independent Board Committee, the text of which is set out in this circular;
- (ix) the service contract referred to under “VII. Directors’ Service Contracts” in this Appendix;
- (x) the material contracts referred to under the paragraph headed “IX. Material Contracts” in this Appendix; and
- (xi) this circular.

NOTICE OF SPECIAL GENERAL MEETING



盛源控股有限公司

SHENG YUAN HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 851)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Sheng Yuan Holdings Limited (the “**Company**”) will be held at Meeting Room, 26/F, No. 238 Des Voeux Road Central, Sheung Wan, Hong Kong on Thursday, 18 May 2023 at 10:00 a.m. for the purposes of considering and, if thought fit, passing with or without modifications, the following proposed resolutions of the Company.

ORDINARY RESOLUTION

“**THAT** the proposed conversion (“**Proposed Conversion**”) of the convertible bonds (“**Convertible Bonds**”) in the aggregate principal amount of HK\$150 million at the interest rate of 1% per annum issued by the Company to Yuanyin Holdings Limited (“**Yuanyin Holdings**”) in full at the conversion price of HK\$0.3 per share of the Company by Yuanyin Holdings be and are hereby approved and confirmed; and **THAT** any one director of the Company be and is hereby authorized to do all such things and take all such actions (including but not limited to the allotment and issuance of the Shares to be issued upon the conversion of the Convertible Bonds) and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) as he/she may consider to be necessary or desirable to implement any of the matters relating to or incidental to the Proposed Conversion.”

SPECIAL RESOLUTION

“**THAT** subject to the Executive (as defined in the circular of the Company dated 26 April 2023 (the “**Circular**”), a copy of which has been produced to this meeting marked “A” and signed by the Chairman of the SGM for the purpose of identification) granting the Whitewash Waiver (as defined in the Circular) and the satisfaction of any conditions attached to the Whitewash Waiver granted, the waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code (as defined in the Circular) waiving any obligation on the part of Yuanyin Holdings to make a mandatory offer for all the issued Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) not already owned or agreed to be acquired by Yuanyin Holdings and parties acting in concert with it which might otherwise arise as a result of the allotting and issuing to Yuanyin Holdings of the Shares pursuant to the conversion of the Convertible Bonds (the “**Whitewash Waiver**”), be and is

NOTICE OF SPECIAL GENERAL MEETING

hereby approved and **THAT** any one director of the Company be and is hereby authorized to do all acts and things and execute such documents (including the affixation of the common seal of the Company where execution under seal is required) and take all steps which, in his/her opinion deem necessary, desirable or expedient to carry out or to give effect to any matters relating to or in connection with the Whitewash Waiver.”

For and On behalf of the Board
Sheng Yuan Holdings Limited
Zhou Quan
Executive Director

Hong Kong, Wednesday, 26 April 2023

Principal place of business in Hong Kong:

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

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Notes:

1. The resolutions at the SGM will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. A shareholder of the Company (the “**Shareholder**”) entitled to attend and vote at the SGM may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a Shareholder.
3. Where there are joint registered holders of any share of HK\$0.10 each in the capital of the Company (the “**Share**”), any one such persons may vote at the SGM, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
4. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company’s Hong Kong branch share registrar, Tricor Tengis Limited, at 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.

NOTICE OF SPECIAL GENERAL MEETING

5. The register of members of the Company will be closed from Monday, 15 May 2023 to Thursday, 18 May 2023, both days inclusive, during which period no transfer of ordinary shares will be registered. In order to determine the identity of ordinary shareholder(s) who is entitled to attend and vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 12 May 2023.
6. As at the date of this notice, the Board consists of Mr. Ma Baojun (being a non-executive Director), Mr. Zhou Quan and Mr. Zhao Yun (all being executive Directors), Mr. Huang Shuanggang (being a non-executive Director), Mr. Zhang Jinfan, Ms. Huang Qin and Mr. Guo Yaoli (all being independent non-executive Directors).