



SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

Executive Directors:

Mr. Ng Hung Sang (*Chairman*)

Ms. Cheung Choi Ngor (*Vice Chairman*)

Ms. Ng Yuk Mui Jessica

(Executive Vice Chairman and Chief Executive Officer)

Registered office:

28th Floor, Bank of China Tower

1 Garden Road, Central

Hong Kong

Independent non-executive Directors:

Hon. Raymond Arthur William Sears, Q.C.

Mrs. Tse Wong Siu Yin Elizabeth

Mr. Tung Woon Cheung Eric

2 August 2019

To the Shareholders

Dear Sir or Madam,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE RIGHTS SHARES FOR EVERY TWO SHARES
HELD ON THE RECORD DATE;
(II) APPLICATION FOR WHITEWASH WAIVER; AND
(III) NOTICE OF EGM**

INTRODUCTION

On 3 July 2019, the Board announced that the Company proposed to raise gross proceeds of approximately HK\$189.8 million (before expenses) by issuing 451,915,605 Rights Shares (assuming no further issue of new Share(s) and no repurchases of Share(s) by the Company on or before the Record Date) at the Subscription Price of HK\$0.42 per Rights Share on the basis of three (3) Rights Shares for every two (2) existing Shares held on the Record Date and payable in full on application. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to Non-Qualifying Shareholders.

The Independent Board Committee has been established to provide recommendations to the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, and Lego Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As disclosed in the Positive Profit Alert Announcement, based on the unaudited condensed consolidated results of the Group for the six months ended 30 June 2018 and 30 June 2019, the Group recorded (i) a fair value gain on the listed equity investments for the six months ended 30 June 2019 of not less than approximately HK\$21 million against the fair value loss on the listed equity investments of not more than approximately HK\$99 million in the corresponding period in 2018; and (ii) gain on the trading of securities, forex and futures contracts for the six months ended 30 June 2019 of not less than approximately HK\$37 million against the loss on the trading of securities, forex and futures contracts of not more than approximately HK\$20 million in the corresponding period in 2018, which may together positively affect the unaudited consolidated profit before tax from continuing operations of the Group for the six months ended 30 June 2019. The Positive Profit Alert Statement, which constitutes a profit forecast of the Company under Rule 10 of the Takeovers Code, has been reported on by Ernst & Young, the auditor of the Company, and Lego Corporate Finance, the Independent Financial Adviser to the Company, respectively, in accordance with Rule 10 of the Takeovers Code. Ernst & Young, the auditor of the Company, is of the opinion that, so far as the accounting policies and calculations are concerned, the Positive Profit Alert Statement was properly compiled on a basis consistent with the accounting policies adopted by the Group, as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2018. Lego Corporate Finance, the Independent Financial Adviser to the Company, is satisfied that the Positive Profit Alert Statement was prepared by the Directors with due care and consideration. Your attention is drawn to the letters from Ernst & Young and Lego Corporate Finance on the Positive Profit Alert Statement as set out in Appendices IB and IC to this circular, respectively.

The purpose of this circular is to provide you with, among other things, (i) further details about the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; (ii) a letter of recommendations from the Independent Board Committee to the Independent Shareholders setting out its recommendations in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; (iv) the financial information and other general information of the Group; and (v) the notice convening the EGM.

THE PROPOSED RIGHTS ISSUE

Subject to, among other conditions, the approval by the Independent Shareholders at the EGM, the Board proposed to raise gross proceeds of approximately HK\$189.8 million (before expenses) on the basis of three (3) Rights Shares for every two (2) Shares held on the Record Date by issuing 451,915,605 Rights Shares at the Subscription Price of HK\$0.42 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date).

On 3 July 2019 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter in respect of the Rights Issue. Further details of the Rights Issue are set out below:

PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	: Three (3) Rights Shares for every two (2) Shares held at the close of business on the Record Date
Subscription Price	: HK\$0.42 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	: 301,277,070 Shares
Number of Rights Shares	: 451,915,605 Rights Shares, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of issued Shares upon completion of the Rights Issue	: 753,192,675 Shares, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue
Amount to be raised	: Approximately HK\$189.8 million before expenses

As at the Latest Practicable Date, the Company has 155,385 outstanding Share Options, which can be exercised from 9 June 2018 to 8 June 2020.

Had such outstanding Share Options been vested and the subscription rights attached thereto been exercised in full, an additional 155,385 Shares (which entitle to 233,077 Rights Shares) would have been issued assuming no further grant of share option by the Company for the period from the Latest Practicable Date to the Record Date.

Save for the aforesaid, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

The 451,915,605 Rights Shares represents 150.00% of the Company's issued share capital as at the Latest Practicable Date and 60.00% of the Company's issued share capital as enlarged by the Rights Issue immediately after completion of the Rights Issue assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue.

Fund raising methods comparison

The Board has considered other alternative means of fund raising, such as debt financing/ bank borrowings and placing of new Shares, before resolving to the Rights Issue. The Company has considered the pros and cons of different fund-raising options. In respect of debt financing, the Company has approached commercial banks, but it was unable to obtain any debt financing at terms acceptable to the Company due to the fact that (i) given the recent financial performance of the Group, in particular its loss-making performance for the year ended 31 December 2018, the commercial banks are not willing to finance the proposed business plans set out in the section headed “Reasons for the Rights Issue” in this letter, including but not limited to margin financing; and (ii) other than the collaterals for the existing banking facilities, the Group does not have any other significant asset as collaterals to obtain further bank loans. Also, the Board does not consider debt financing to be desirable at this stage as the expected finance costs for such substantial sum are high and additional borrowings will deteriorate the gearing position of the Group. Placing of new Shares is not adopted as it does not allow the Qualifying Shareholders the rights to participate in the fund raising exercise and their shareholdings in the Company would be diluted without being offered an opportunity to maintain their proportionate interests in the Company.

In comparison, the Rights Issue is pre-emptive in nature, allowing Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation in the Rights Issue. The Rights Issue allows the Qualifying Shareholders to (a) increase their respective interests in the shareholding of the Company by acquiring additional rights entitlement in the open market (subject to the availability); or (b) reduce their respective interests in the shareholding of the Company by disposing of their rights entitlements in the open market (subject to the market demand). As an open offer does not allow the trading of rights entitlements, rights issue is preferred. Accordingly, the Directors consider that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and not be a Non-Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, any relevant transfer documents (together with the relevant share certificates) must be lodged with the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 28 August 2019. It is expected that the last day of dealings in the Shares on a cum-rights basis is Monday, 26 August 2019 and the Shares will be dealt with on an ex-rights basis from Tuesday, 27 August 2019.

Shareholders with their Shares held by a nominee (or held in CCASS) should note that the Board will consider the nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company.

Shareholders with their Shares held by a nominee (or held in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date. For investors whose Shares are held by a nominee (or CCASS) and would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 28 August 2019.

The Qualifying Shareholders who take up their pro-rata entitlement in full will not experience any dilution to their interests in the Company (except in relation to any dilution resulting from the taking up by third parties of any Rights Shares arising from aggregation of fractional entitlements). **If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.**

Closure of register of members

The register of members of the Company will be closed from Monday, 19 August 2019 to Friday, 23 August 2019 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM.

The register of members of the Company will be closed from Thursday, 29 August 2019 to Wednesday, 4 September 2019 (both days inclusive) for determining the entitlements to the Rights Issue.

No transfer of Shares will be registered during the above book closure periods.

Basis of provisional allotments

The basis of the provisional allotment shall be three (3) Rights Shares (in nil-paid form) for every two (2) Shares held by the Qualifying Shareholders as at the close of business on the Record Date.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by lodging a duly completed PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance.

Rights of Overseas Shareholders

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 13.36(2)(a) of the Listing Rules and make enquiries regarding the feasibility of extending the offer of the Rights Shares to Overseas Shareholders, if any. If, based on the legal opinions to be provided by the legal advisers to the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the place(s) of their registered address(es) or the

requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s), the Rights Issue will not be extended to such Overseas Shareholders. As at the Latest Practicable Date, there were four Overseas Shareholders.

As at the Latest Practicable Date, based on the register of members of the Company, the Overseas Shareholders are as follows:

Number of Overseas Shareholder(s)	Jurisdiction of the registered address of the Overseas Shareholder(s)	Number of Shares held
1	Canada	1,260
1	Taiwan	1,600
2	Australia	736

Each of the Overseas Shareholders represents less than 1% of the total issued Shares as at the Latest Practicable Date.

Having made reasonable enquiries of the legal requirements regarding the feasibility of extending the Rights Issue to the Overseas Shareholder(s), with registered address(es) (as shown in the register of members of the Company) under the jurisdictions set out in the above in compliance with Rule 13.36(2)(a) of the Listing Rules and taking into account the foreign legal opinion as at the Latest Practicable Date, provided by the Canadian legal adviser, Taiwanese legal adviser and Australian legal adviser engaged by the Company, the Directors were of the view that:

- (i) it is expedient not to extend the Rights Issue to the Overseas Shareholder(s) with registered address(es) (as shown in the register of members of the Company) in Canada and Australia given the expenses and effort, which may be incurred or involved in compliance with the relevant regulatory requirements in Canada and Australia, and, hence, the Overseas Shareholder(s) with registered address(es) (as shown in the register of members of the Company) in Canada and Australia shall be Non-Qualifying Shareholder(s); and
- (ii) it is not necessary and expedient to extend the Rights Issue to the Overseas Shareholder(s) with registered address(es) (as shown in the register of members of the Company) in Taiwan and, hence, the Overseas Shareholder(s) with registered address(es) (as shown in the register of members of the Company) in Taiwan shall be Non-Qualifying Shareholders.

As such, the Company will send the Prospectus to the Non-Qualifying Shareholder(s) for their information only, but will not send any PAL to them. Receipt of a copy of the Prospectus does not and will not constitute an offer to the Non-Qualifying Shareholder(s).

It is the responsibility of any person (including but without limitation to nominee, custodian, agent and trustee) receiving a copy of the Prospectus Documents outside Hong Kong and wishing to take up the Rights Shares to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant territory or jurisdiction, including the obtaining of any governmental or other consents and/or observing any other formalities which

may be required in such territory or jurisdiction, and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been complied with. If you are in any doubt as to your position, you should consult your professional adviser. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited is subject to any of the representations and warranties.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in the market in their nil-paid form during the period from Monday, 9 September 2019 to Monday, 16 September 2019 if a premium (net of expenses) can be obtained. The proceeds from such sale, less expenses, of more than HK\$100 will be paid on pro-rata basis to the relevant Non-Qualifying Shareholders. In view of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit.

Any NQS Unsold Rights Shares will first be placed by the Bookrunner under the Placing Agreement together with the Unsubscribed Rights Shares, and if unsuccessfully sold, will be taken up by the Underwriter.

Net Gain (if any) will be paid pro-rata (but rounded down to the nearest cent) to the relevant No Action Shareholders according to their shareholdings held on the Record Date in Hong Kong dollars on the basis of all NQS Unsold Rights Shares and Unsubscribed Rights Shares. The Company will retain individual amounts of less than HK\$100 for its own benefit.

For the nil-paid Rights Shares that were sold in the market by the Company and the buyer of such nil-paid Rights Shares who will not take up the entitlement, such Unsubscribed Rights Shares will be subjected to the Compensatory Arrangements.

The Company reserves the right to treat as invalid any acceptance of or applications for Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.

Subscription price

The Subscription Price for the Rights Shares is HK\$0.42 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (a) a discount of approximately 16.00% to the closing price of HK\$0.500 per Share as quoted on the Stock Exchange on the Last Trading Day;

- (b) a discount of approximately 7.08% to the theoretical diluted price of approximately HK\$0.452 per Share taking into account the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 14.46% to the average of the closing prices of approximately HK\$0.491 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 14.81% to the average of the closing prices of approximately HK\$0.493 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 86.16% to the consolidated net asset value as at 31 December 2018 as extracted from the annual report of the Company for the year ended 31 December 2018 of approximately HK\$3.035 per Share as at 31 December 2018;
- (f) a discount of approximately 86.47% to the adjusted net asset value as at 31 December 2018 of approximately HK\$3.105 per Share (based on the adjusted net asset value of approximately HK\$935.36 million which represents the sum of the consolidated net assets of the Group of approximately HK\$914.36 million as at 31 December 2018 as shown in the annual report of the Company for the year ended 31 December 2018 and the excess of approximately HK\$21 million of the market value of the investment property of approximately HK\$550 million as at 31 May 2019 as shown in the valuation report set out in Appendix III to this circular over the fair value of such property of approximately HK\$529 million as recognised in the audited consolidated financial statements for the year ended 31 December 2018, divided by the number of Shares in issue as at the Latest Practicable Date of 301,277,070 Shares);
- (g) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 9.60% represented by the theoretical diluted price of HK\$0.452 per Share to the benchmarked price of approximately HK\$0.500 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.500 per Share and the average closing prices of the Shares as quoted on the Stock Exchange in the five (5) consecutive trading days immediately prior to the Last Trading Day of approximately HK\$0.491 per Share); and
- (h) a discount of approximately 12.5% to the closing price of HK\$0.480 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Board has observed the deep discount mentioned in (e) and (f) above. Nevertheless, taking into account the fact that the existing Shares were traded at a discount to the net asset value per existing Share over the 12-month period up to and including the Last Trading Day

ranging from approximately 59.97% to 84.51%, with an average of approximately 76.25%, the Board is of the view that the net asset value per existing Share or the adjusted net asset value per existing Share may not be a meaningful reference to determine the Subscription Price.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to, amongst other factors, the following:

- (i) the recent closing prices of the Shares;
- (ii) the prevailing market conditions;
- (iii) the historical closing price for the last 52 weeks;
- (iv) the Company recorded a loss of approximately HK\$239.8 million for the financial year ended 31 December 2018 and had net current asset of approximately HK\$414.9 million as at 31 December 2018. The expected amount to be raised by the Rights Issue represents approximately 20.8% of the Company's equity as at 31 December 2018 and approximately 126.0% of the Company's market capitalisation as at the Last Trading Day; and
- (v) the funding and capital needs of the Company for its business plans and prospect set out in the section headed "Reasons for the Rights Issues" below.

In determining the terms of the Rights Issue, the Company strives to set a reasonable subscription price that reflects a balance between the financial conditions of the Group (including but not limited to the historical performance and the net asset value) and the market price of the Shares. While the Rights Issue is fully underwritten by the Underwriter, an existing Shareholder may make an informed decision in electing to accept or decline part of or all of his/her/its provisional allotment of nil paid rights. The Underwriter would be accepting the Rights Shares on the same price as any other Qualifying Shareholder.

The Directors consider that, despite any potential dilution impact of the Rights Issue on the shareholding interests of the Shareholders, the terms of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the following factors: (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue are able to sell the nil paid rights in the market; (ii) the Qualifying Shareholders who choose to accept their provisional entitlements in full can maintain their respective existing shareholding interests in the Company after the Rights Issue; and (iii) the Rights Issue allows the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical market price of the Shares.

In dollar terms, if the existing Shareholders elect not to participate in the Rights Issue, there will be an approximately 9.6% dilution in value of shareholding in the Company from the closing price of HK\$0.500 per Share as quoted on the Stock Exchange on the Last Trading

Day to the theoretical diluted price of approximately HK\$0.452 per Share in the Company taking into account the closing prices of the Shares as quoted on the Stock Exchange on the Last Trading Day.

Mr. Ng, the Substantial Shareholder of the Company, the Chairman of the Board, an executive Director and the beneficial owner of the entire interests in the Underwriter, has abstained from voting on the relevant Board resolutions approving the Underwriting Agreement, the Rights Issue and the Whitewash Waiver in view of his material interests therein. Ms. Cheung has also abstained from voting on such Board resolutions given the common directorship in the Company and the Underwriter and, hence the deemed interests in the proposed transactions. Ms. Jessica Ng, the daughter of Mr. Ng, has abstained from voting on the said Board resolutions voluntarily on the ground of good corporate governance. Notwithstanding the above, the Directors are of the view that the terms and structure of the Rights Issue, including the Subscription Price (and the discounts to the relative values as indicated above), the subscription ratio and the potential dilution effect on the shareholding interests of the Qualifying Shareholders (which may only happen when the Qualifying Shareholders do not subscribe for their pro-rata Rights Shares), are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that all Qualifying Shareholders are treated equally. The other Board members (being the independent non-executive Directors and, hence, the members of the Independent Board Committee) voted for the Board resolutions approving the Underwriting Agreement, the Rights Issue and the Whitewash Waiver.

Hon. Raymond Arthur William Sears, Q.C., an independent non-executive Director, is deemed to be interested in 53,000 Shares by virtue of his spouse's interest in such Shares. Save for the nominal interest in the abovementioned 53,000 Shares, which represents approximately 0.02% of the Share currently in issue, as a Shareholder, voting on the Board resolutions approving the Underwriting Agreement, the Rights Issue and the Whitewash Waiver and making recommendations to the Independent Shareholders after taking into account the advice of the Independent Financial Adviser, Hon. Raymond Arthur William Sears, Q.C. has no involvement in the aforesaid transactions.

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the relevant provisional allotment of Rights Shares will be approximately HK\$0.409.

Status of Rights Shares

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid, the record date of which is after the date of allotment of the Rights Shares in their fully-paid form.

Share certificates for the Rights Issue

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted on Thursday, 3 October 2019 by ordinary post to the allottees, at their own risk, to their registered addresses.

Fractions of Rights Shares

The Company will not provisionally allot fractions of Rights Shares in nil-paid form to the Qualifying Shareholders. All fractions of Rights Shares, if any, will be aggregated (and rounded down to the nearest whole number) and all nil-paid Rights Shares arising from such aggregation will be sold in the market for the benefit of the Company if a premium (net of expenses) can be achieved. Any unsold fractions of Rights Shares will be underwritten by the Underwriter.

Odd lots matching services

In order to alleviate the difficulties arising from the existence of odd lots of Rights Shares arising from the Rights Issue, a designated broker will be appointed to match the purchase and sale of odd lots of the Shares at the relevant market price per Share for the period Thursday, 3 October 2019 to Thursday, 24 October 2019 (both dates inclusive). Holders of the Shares in odd lots represented by the existing share certificates for the Shares who wish to take advantage of this facility either to acquire odd lots of the Shares to make up a full board lot or dispose of their odd lots of the Shares, may directly or through their broker, contact Ms. Fiona Chan of South China Securities Limited at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong or by telephone at (852) 3196 6220 or by facsimile at (852) 3101 9200 during such period. Holders of odd lots of Shares should note that successful matching of the sale and purchase of odd lots of Shares is on the best effort basis and not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult his/her/its own professional advisers.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue.

Subject to the grant of the approval for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from their respective commencement dates of dealings on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, which are registered in the register of members of the Company, will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares, and the Compensatory Arrangements

Pursuant to Rule 7.21(2) of the Listing Rules, as the Underwriter, being the Shareholder and indirectly wholly-owned by Mr. Ng, acts as an underwriter of the Rights Issue, the Company must make arrangements described in Rule 7.21(1)(b) of the Listing Rules to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees for the benefit of Shareholders to whom they were offered by way of the Rights Issue. There will be no excess application arrangements in relation to the Rights Issue as required by Rule 7.21(2) of the Listing Rules.

The Company therefore appointed the Bookrunner to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares after the Latest Time for Acceptance to independent placees on a best effort basis, and any premium over the aggregate amount of (i) the Subscription Price for those Rights Shares; and (ii) the expenses of the Bookrunner (including any other related expenses/fees), that is realised will be paid to those No Action Shareholders. The Bookrunner will, on a best effort basis, procure, by not later than 5:00 p.m., on Wednesday, 25 September 2019, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the NQS Unsold Rights Shares if a premium over the Subscription Price and the expenses of procuring such acquirers (including any related commissions and any other related expenses/fees) can be obtained. Any unsold Unsubscribed Rights Shares and the NQS Unsold Rights Shares will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

Net Gain (if any) will be paid (without interest) on pro-rata basis (on the basis of all Unsubscribed Rights Shares and NQS Unsold Rights Shares) to the No Action Shareholders (but rounded down to the nearest cent) as set out below:

- (i) where the nil-paid rights are, at the time they lapse, represented by a PAL, to the person whose name and address appeared on the PAL (unless that person is covered by (iii) below);
- (ii) where the nil-paid rights are, at the time they lapse, registered in the name of HKSCC Nominees Limited, to the beneficial holders (via their respective CCASS participants) as the holder of those nil-paid rights in CCASS (unless that person is covered by (iii) below); and
- (iii) if the Rights Issue is extended to the Overseas Shareholders and where an entitlement to the Rights Shares was not taken up by such Overseas Shareholders, to that Overseas Shareholders.

It is proposed that Net Gain to any of the No Action Shareholder(s) mentioned in (i) to (iii) of HK\$100 or more will be paid to them in Hong Kong dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit.

THE PLACING AGREEMENT

On 3 July 2019 (after trading hours), the Company and the Bookrunner entered into the Placing Agreement, pursuant to which the Bookrunner has conditionally agreed to procure independent placees, on a best effort basis, to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares. Details of the placing arrangement are as follows:

Date: 3 July 2019

Bookrunner: Opus Capital Limited was appointed as a bookrunner to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares on a best effort basis.

The Bookrunner confirmed that it is independent of and not connected with the Company and its connected person and not a connected person of the Company.

Fees and expenses: A fixed fee of HK\$100,000 and reimbursed for the expenses in relation to the placing (including but not limited to all out-of-pocket expenses actually incurred by the Bookrunner for placing the Unsubscribed Rights Shares and the NQS Unsold Rights Shares), which the Bookrunner is authorised to deduct from the payment to be made by the Bookrunner to the Company at the Placing Completion Date.

Placing price of the Unsubscribed Rights Shares and/or and the NQS Unsold Rights Shares (as the case maybe): The placing price of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Share (as the case maybe) shall be at least equal to the Subscription Price.

The final price determination is dependent on the demand and market conditions of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares during the process of placement.

Placees: The Unsubscribed Rights Shares and the NQS Unsold Rights Shares are expected to be placed to placees, who and whose ultimate beneficial owners, shall be Independent Third Parties.

Ranking of Unsubscribed Rights Shares and the NQS Unsold Rights Shares: Unsubscribed Rights Shares and the NQS Unsold Rights Shares (when placed, allotted, issued and fully paid) shall rank *pari passu* in all respects among themselves and with the existing Shares in issue as at the Latest Practicable Date.

Termination:

The Placing Agreement shall end on 30 September 2019 or any other date by mutual written agreement between the Bookrunner and the Company.

The Bookrunner may terminate the Placing Agreement without any liability to the Company, by notice in writing given by the Bookrunner to the Company at any time prior to 10:00 a.m. on the Placing Completion Date upon the occurrence of the following events which, in the absolute opinion of the Bookrunner, has or may have an adverse material effect on the business or financial conditions or prospects of the Company or the Group taken as a whole or the success of the Placing or otherwise makes it inappropriate, inadvisable or inexpedient to proceed with the Placing on the terms and in the manner contemplated in the Placing Agreement:

- (i) there develops, occurs or comes into force:
 - (a) any event, development or change (whether or not local, national or international or forming part of a series of events, developments or changes occurring or continuing before, on and/or after the date hereof) and including an event or change in relation to or a development of an existing state of affairs of a political, military, industrial, financial, economic, fiscal, regulatory or other nature, resulting in a change in, or which may result in a change in, political, economic, fiscal, financial, regulatory or stock market conditions; or
 - (b) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - (c) any change in conditions of local, national or international securities markets occurs; or
 - (d) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Group; or

- (e) a change or development occurs involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong or elsewhere; or
 - (f) any litigation or claim being instigated against any member of the Group which would have a material adverse effect of the Group; or
 - (g) any suspension in the trading of Shares on the Stock Exchange for a continuous period of five Business Days; or
- (ii) any breach of any of the representations and warranties set out in the Placing Agreement comes to the knowledge of the Bookrunner or any event occurs or any matter arises on or after the date hereof and prior to the Placing Completion Date which if it had occurred or arisen before the date hereof would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Company of any other provision of the Placing Agreement; or
 - (iii) there is any material adverse change in the financial or business or trading position of the Group taken as a whole; or
 - (iv) there may or will be likely that the Unsubscribed Rights Shares and the NQS Unsold Rights Shares will not be approved by the relevant regulatory bodies and/or regulatory authorities.

Conditions Precedent:

The Placing is conditional upon the following conditions:

- (i) the Independent Shareholders passing (a) the ordinary resolutions at the EGM to approve (1) the Rights Issue; (2) the Underwriting Agreement and the transactions contemplated thereunder; and (b) the special resolution at the EGM to approve the Whitewash Waiver;

- (ii) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked, the approval for the listing of, and permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) prior to the Latest Time for Termination;
- (iii) the filing and registration of all the Prospectus Documents (together with any other documents required by applicable law or regulation to be annexed thereto) with the Registrar of Companies in Hong Kong by no later than the Posting Date;
- (iv) the posting of the Prospectus Documents to the Qualifying Shareholders by no later than the Posting Date;
- (v) each of the relevant Shareholders and Director complying with his/her/its obligations under the Irrevocable Undertakings;
- (vi) each of the holders of the Share Options providing their respective Optionholders' Undertaking, and complying with his/her obligations under their respective Optionholders' Undertaking;
- (vii) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- (viii) there being no breach of the undertakings and obligations of the Company under the terms of the Underwriting Agreement before and at the Latest Time for Termination;
- (ix) the Placing Agreement not being terminated on or before the Latest Time for Termination; and
- (x) the SFC having granted the Whitewash Waiver to the Underwriter.

The conditions precedent set out in paragraphs (i) to (vii), (ix) and (x) above are incapable of being waived by the Bookrunner and/or the Company. The Bookrunner may waive the condition precedent set out in paragraph (viii) in whole or in part by written notice to the Company.

If the conditions precedent set out in above paragraphs are not satisfied (or, if applicable, waived in whole or in part by the Bookrunner) on or prior to the Business Day immediately preceding the Placing Completion Date or such later date as may be agreed between the Company and the Bookrunner and approved by the Stock Exchange, the Placing Agreement shall terminate and none of the parties shall have any claim against another for costs, damages, compensation or otherwise save in respect of any antecedent breaches of the Placing Agreement.

Completion of the Placing: being the third Business Day after the Latest Placing Day, or such other date as the Company and the Bookrunner may agree in writing.

The engagement between the Company and the Bookrunner of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares was determined after arm's length negotiation between the Bookrunner and the Company and is on normal commercial terms. The Directors, after considering placing fees as published on the Stock Exchange's website since March 2019 up to the date of the Announcement, consider that the terms of placing agreement for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares are on normal commercial terms and believe that the expenses as typical and ordinary in the marketing of securities.

Given that the Compensatory Arrangements would provide (i) a distribution channel of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to the Company; and (ii) a compensatory mechanism for No Action Shareholders, the Directors consider that the Compensatory Arrangements are fair and reasonable and would provide adequate safeguard to protect the interest of the Company's minority Shareholders.

THE UNDERWRITING AGREEMENT

On 3 July 2019, the Underwriter and the Company entered into the Underwriting Agreement which is conditional upon, among other things, the Independent Shareholders' approval. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to fully underwrite all the Rights Shares other than those agreed to be taken up by Mr. Ng and his close associates (namely (i) the Underwriter; (ii) Fung Shing Group Limited; (iii) Parkfield Holdings Limited; and (iv) Ronastar Investments Limited), and Mr. Paul Ng pursuant to their respective Irrevocable Undertakings.

Agreement date : 3 July 2019

Underwriter : Uni-Spark Investments Limited

The Underwriter is wholly-owned by Mr. Ng beneficially.

Total number of Rights Shares underwritten by the Underwriter	: 301,673,195 Rights Shares (having taken into account of the Irrevocable Undertakings and assuming no new Share being issued and no Share being repurchased on or before the Record Date and no placement made under the Compensatory Arrangements)
Commission	: The Underwriter will receive 2% of the aggregate Subscription Price of the Underwritten Shares as underwriting commission

The terms of the Underwriting Agreement (including the commission rate) were determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market conditions.

As mentioned in the sub-section headed "Subscription Price" in the section headed "Proposed Rights Issue" in this letter, Mr. Ng, Ms. Cheung and Ms. Jessica Ng have abstained from voting on the Board resolutions approving the Rights Issue, the Underwriting Agreement and the Whitewash Waiver. Notwithstanding the above, the executive Directors, namely Mr. Ng, Ms. Cheung and Ms. Jessica Ng, are of the view that the terms of the Underwriting Agreement, including the commission rate, are fair and reasonable and the transactions contemplated under the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The other Board members (being the independent non-executive Directors and, hence, the members of the Independent Board Committee which has formed its views after taking into account of the advice of the Independent Financial Adviser, please refer to the section headed "Letter from the Independent Board Committee" of this circular for further details) voted for the Board resolutions approving the Underwriting Agreement, the Rights Issue and the Whitewash Waiver (refer to the sections headed "Shareholding Structure of the Company" and "Takeovers Code Implications and Application for Whitewash Waiver" in this letter for details).

The Company had not approached any other independent underwriters to consider underwriting the Rights Issue because the Underwriter is indirectly wholly owned by Mr. Ng, who is also the Substantial Shareholder of the Company with sufficient financial backing and a track record of completing capital market deals successfully with the Company. The Company is also mindful of the laws and regulations in Hong Kong pertaining to the need to keep inside information confidential pending an announcement and not putting any person in a privileged dealing position. As the Rights Issue is a piece of highly material and price sensitive information, the Company did not consider approaching multiple potential underwriters with whom it does not have prior business relationship to be conducive to compliance with the relevant laws and regulations.

It is not in the ordinary course of business of the Underwriter to underwrite issues of shares. Uni-Spark Investments Limited's role as the Underwriter and the Irrevocable Undertakings given by Mr. Ng and his close associates signify strong support from the Substantial Shareholder of the Company to the Group and his confidence in the prospects and development of the Group.

The Subscription Price was set at a discount to the recent closing prices of the Shares aiming at lowering the further investment cost of the Shareholders so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimising dilution impact. The terms of the Rights Issue, including the Subscription Price, were determined after arm's length negotiations between the Company and the Underwriter, taking into account the following factors: (i) the prevailing share price of the Company; (ii) the current uncertainties and low market sentiment in the Hong Kong stock market; (iii) the historical closing price for the last 52 weeks; (iv) the latest business performance and financial position of the Group; and (v) the funding and capital needs of the Company. Given the over-subscription of the rights issue completed in June 2015 and slight under-subscription of the 2016 Rights Issue, the maximum dilution to all Qualifying Shareholders as a result of nil acceptance of the Rights Shares by them would unlikely occur.

Apart from the aforesaid factors, given that the maximum possible underwriting exposure of about HK\$126.7 million is quite a substantial amount taking into account the Company's financial position, the Directors consider that selecting a company wholly-owned by Mr. Ng, who is willing to support the continuing growth of the Group, as the underwriter for the Rights Issue is in the interests of the Company and the Shareholders as a whole.

The Irrevocable Undertakings

As at the Latest Practicable Date, Mr. Ng, together with his close associates (namely (i) the Underwriter; (ii) Fung Shing Group Limited; (iii) Parkfield Holdings Limited; and (iv) Ronastar Investments Limited), and Mr. Paul Ng hold in aggregate 88,461,607 Shares and 11,700,000 Shares, respectively, representing approximately 29.36% and 3.88% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertakings, Mr. Ng and his close associates, namely the Underwriter, Fung Shing Group Limited, Parkfield Holdings Limited, Ronastar Investments Limited (refer to the section headed "Shareholding Structure of the Company" below for details), and Mr. Paul Ng have provided irrevocable and unconditional undertakings to the Company and the Underwriter to, among other things, accept their entitlements to the provisional allotment of 132,692,410 Rights Shares (in aggregate) and 17,550,000 Rights Shares, respectively, and not to sell or transfer the Shares held by them in any manner before completion or lapse of the Rights Issue.

Save for the Irrevocable Undertakings, the Board has not received any information or irrevocable undertakings from any Shareholders of their intention to take up the securities of the Company to be offered to them under the Rights Issue.

The Optionholders' Undertakings

As at the Latest Practicable Date, the Company has 155,385 outstanding Share Options, which can be exercised from 9 June 2018 to 8 June 2020.

As at the Latest Practicable Date, each of the holders of the Share Options has signed an Optionholders' Undertaking not to exercise the Share Options granted to him/her prior to completion or, where applicable, lapse of the Rights Issue.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination,

- (A) one or more of the following events or matters shall occur, arise, exist, or come into effect:
- (i) the introduction of any new regulation or any change in existing laws or regulations (or the judicial interpretation thereof) after the signing of the Underwriting Agreement;
 - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing after the signing of the Underwriting Agreement) of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets;
 - (iii) any material adverse change after the signing of the Underwriting Agreement in the business or in the financial or trading position of any member of the Group;
 - (iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out occurring after the signing of the Underwriting Agreement;
 - (v) after signing of the Underwriting Agreement, there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange whether due to exceptional financial circumstances or otherwise;
 - (vi) there is, after signing of the Underwriting Agreement, any change or any development involving a prospective change in market conditions (including, without limitation, change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, in/on Hong Kong, the PRC or other jurisdiction relevant to any member of the Group and a change in currency conditions for the purpose of the clause in the Underwriting Agreement governing the termination of the Underwriting Agreement includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs; or
 - (vii) the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or the Takeovers Code or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company,

which event or events is or are in the reasonable opinion of the Underwriter:

- (a) is or are likely to have a material adverse effect on the business or financial or trading position or prospects of the Group as a whole;
 - (b) is or are likely to have a material adverse effect on the success of the Rights Issue or the level of the Rights Shares taken up; or
 - (c) makes it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue,
- (B) any material breach of any of the warranties or undertakings or any omission to observe any of the obligations or undertakings contained in the representations, warranties and undertakings in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (C) any Specified Event comes to the knowledge of the Underwriter,

the Underwriter shall be entitled to terminate the Underwriting Agreement by notice in writing to the Company served prior to the Latest Time for Termination.

Upon giving of notice pursuant to the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate forthwith provided that the Company shall remain liable to pay to the Underwriter such fees and expenses (other than the underwriting commission) payable by the Company pursuant to the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

If the Underwriter or the Company terminates the Underwriting Agreement, the Rights Issue will not proceed. A further announcement would be made if the Underwriting Agreement is terminated by the Underwriter or the Company.

Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled or waived (as appropriate):

- (a) the Independent Shareholders passing (i) the ordinary resolutions at the EGM to approve (1) the Rights Issue; (2) the Underwriting Agreement and the transactions contemplated thereunder; and (ii) the special resolution at the EGM to approve the Whitewash Waiver (refer to the sections headed “Listing Rules Implications” and “Takeovers Code Implications and Application for Whitewash Waiver” in this letter below for further information);
- (b) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked, the approval for the listing of, and permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) prior to the Latest Time for Termination;

- (c) the filing and registration of all the Prospectus Documents (together with any other documents required by applicable law or regulation to be annexed thereto) with the Registrar of Companies in Hong Kong by no later than the Posting Date;
- (d) the posting of the Prospectus Documents to the Qualifying Shareholders by no later than the Posting Date;
- (e) each of the relevant Shareholders and Director complying with his/her obligations under the Irrevocable Undertakings;
- (f) each of the holders of the Share Options providing their respective Optionholders' Undertaking, and complying with his/her obligations under their respective Optionholders' Undertaking;
- (g) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- (h) there being no breach of the undertakings and obligations of the Company under the terms of the Underwriting Agreement before and at the Latest Time for Termination;
- (i) the Placing Agreement not being terminated on or before the Latest Time for Termination; and
- (j) the Executive having granted the Whitewash Waiver to the Underwriter.

The conditions precedent set out in paragraphs (a) to (g), (i) and (j) above are incapable of being waived by the Underwriter and the Company. The Underwriter may waive the condition precedent set out in paragraph (h) in whole or in part by written notice to the Company.

If the conditions precedent set out in above paragraphs are not satisfied (or, if applicable, waived in whole or in part by the Underwriter) by the Latest Time for Acceptance and/or the condition precedent set out in above paragraph (h) does not remain fulfilled (unless waived by the Underwriter in whole or in part) up to the Latest Time for Termination, the Underwriting Agreement shall terminate (save in respect of the provisions in relation to fees and expenses, indemnity, notices and governing law and any rights or obligations which have accrued under the Underwriting Agreement prior to such termination) and no party will have any claim against any other party for costs, damages, compensation or otherwise, and the Rights Issue will not proceed. The Irrevocable Undertakings shall lapse upon the termination of the Underwriting Agreement.

SUB-UNDERWRITING ARRANGEMENT

Pursuant to the Underwriting Agreement, the Underwriter agreed to take appropriate steps as may be reasonably required to maintain the minimum public float for the Shares in compliance with Rule 8.08(1) of the Listing Rules, including entering into sub-underwriting agreement to place out its Shares, if necessary.

As at the Latest Practicable Date, the Underwriter confirms that it has sub-underwritten its underwriting obligations under the Underwriting Agreement to one (1) sub-underwriter, namely Supreme China Securities Limited. As at the Latest Practicable Date, the sub-underwriter does not hold any Shares. The maximum number of Rights Shares sub-underwritten by such sub-underwriter is 4,500,000 Rights Shares. As the sub-underwriter and its ultimate beneficial owners are Independent Third Parties, should the sub-underwriter underwrite such 4,500,000 Rights Shares, it would only own approximately 0.60% of the enlarged issued share capital of the Company upon completion of the Rights Issue. Thus, the Company will be able to maintain a public float of at least 25% as a result of the Rights Issue.

According to the Underwriter, should it be found that the Underwriter is required to underwrite an amount of Rights Shares that would result in the public float for the Shares falls below 25% as required under the Listing Rules upon the latest time for placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by the Bookrunner, the sub-underwriter will be the ultimate subscriber of the Rights Shares as it would be called upon to fulfil its sub-underwriting commitment. As such, it is expected that the minimum public float as required under the Listing Rules will be maintained at all times as a result of the Rights Issue (including such sub-underwriting arrangement). The sub-underwriter has on one or more occasions acted as a sub-underwriter before. Furthermore, the Company has checked with the Underwriter. According to the Underwriter, sub-underwriter has a securities portfolio with a value of over HK\$8 million, and is therefore a “professional investor” as defined under the SFO and has sufficient financial resources to sub-underwrite.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 301,277,070 Shares in issue. On the assumption that there is no change in the shareholding structure of the Company from the Latest Practicable Date to completion of the Rights Issue save for the following, the table below depicts, for illustrative purposes only, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders; (iii) immediately after completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than the Shareholders and Director who have provided Irrevocable Undertakings and 100% of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares fully placed to Independent Third Parties under the Compensatory Arrangements; and (iv) immediately after completion of the Rights Issue assuming nil acceptance of the Rights Shares

by the Qualifying Shareholders other than the Shareholders and Director who have provided Irrevocable Undertakings and 100% of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares taken up by the Underwriter:

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders		Immediately after completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than the Shareholders and Director who have provided Irrevocable Undertakings and 100% of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares fully placed to Independent Third Parties under the Compensatory Arrangements		Immediately after completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than the Shareholders and Director who have provided Irrevocable Undertakings and 100% of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares taken up by the Underwriter and the sub-underwriter (Note 8)	
	Number of Shares	Approx. % (Note 7)	Number of Shares	Approx. % (Note 7)	Number of Shares	Approx. % (Note 7)	Number of Shares	Approx. % (Note 7)
The Underwriter (Note 1)	7,178,761	2.38	17,946,902	2.38	17,946,902	2.38	315,120,097	41.84
Fung Shing Group Limited (Note 1)	23,526,030	7.81	58,815,075	7.81	58,815,075	7.81	58,815,075	7.81
Parkfield Holdings Limited (Note 1)	44,623,680	14.81	111,559,200	14.81	111,559,200	14.81	111,559,200	14.81
Ronastar Investments Limited (Note 1)	1,999,872	0.66	4,999,680	0.66	4,999,680	0.66	4,999,680	0.66
Mr. Ng (Notes 1 and 2)	11,133,264	3.70	27,833,160	3.70	27,833,160	3.70	27,833,160	3.70
Mr. Paul Ng (Note 4)	11,700,000	3.88	29,250,000	3.88	29,250,000	3.88	29,250,000	3.88
Sub-total of the Underwriter, Mr. Ng and his associates	100,161,607	33.24	250,404,017	33.24	250,404,017	33.24	547,577,212	72.70
Ms. Cheung (Notes 2 and 5)	12,300,311	4.08	30,750,777	4.08	12,300,311	1.63	12,300,311	1.63
Mr. Gorges (Note 5)	5,000,000	1.66	12,500,000	1.66	5,000,000	0.66	5,000,000	0.66
Sub-total of the Underwriter and parties acting in concert with it (Note 6)	117,461,918	38.98	293,654,794	38.98	267,704,328	35.53	564,877,523	74.99
Hon. Raymond Arthur William Sears, Q.C. (Notes 2 and 3)	53,000	0.02	132,500	0.02	53,000	0.01	53,000	0.01
Public Shareholders (including the sub-underwriter but excluding the Underwriter, the parties acting in concert therewith and Directors)	183,762,152	61.00	459,405,381	61.00	485,435,347	64.46	188,262,152	25.00
Total	301,277,070	100.00	753,192,675	100.00	753,192,675	100.00	753,192,675	100.00

Notes:

1. The Underwriter, Fung Shing Group Limited, Parkfield Holdings Limited and Ronastar Investments Limited are wholly-owned by Mr. Ng. As such, Mr. Ng is the beneficial owner of in the Shares held by such companies.
2. Mr. Ng, Ms. Cheung and Hon. Raymond Arthur William Sears, Q.C. are Directors.
3. The 53,000 Shares are the spouse interest of Hon. Raymond Arthur William Sears, Q.C..
4. Mr. Paul Ng is the son of Mr. Ng.
5. Ms. Cheung and Mr. Gorges are directors of the Underwriter.
6. The parties acting in concert with the Underwriter include Mr. Ng, Mr. Paul Ng, Fung Shing Group Limited, Parkfield Holdings Limited and Ronastar Investments Limited. The abovementioned companies are under the control of Mr. Ng (see Note 1 above). By virtue of being a director of the Underwriter, each of Ms. Cheung and Mr. Gorges is also a party acting in concert with it.
7. Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.
8. The Underwriter has sub-underwritten its underwriting obligations under the Underwriting Agreement to one (1) sub-underwriter, which is an Independent Third Party, to ensure the public float shall not fall below 25% upon completion of the Rights Issue. For further details regarding the sub-underwriting arrangement, please refer to the section headed "Sub-underwriting arrangement" in this letter above.

REASONS FOR THE RIGHTS ISSUE

The principal activity of the Company is investment holding. The principal activities of the Group's subsidiaries consist of securities, commodities, bullion and forex broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services, asset and wealth management, property investment, media publications and financial public relation services, sales of jewellery products and investment holding.

The SFC has published the new Margin Financing Guidelines ("Guidelines") in the gazette on 4 April 2019, which will be effective on 4 October 2019. Under the Guidelines, South China Securities Limited ("SCS") which is one of the wholly-owned subsidiaries of the Company, is required to set up various limits in respect of its margin financing business. In addition, SCS is required to perform stress tests under different scenario as specified in the Guidelines. These various limits and stress tests are either benchmarked to the shareholders' fund or liquid capital defined under Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong). SCS has performed an assessment on the current margin loan portfolio and it is estimated that approximately HK\$170 million is required to be injected in SCS as its share capital to continue such business under the Guidelines.

As a result, the Directors consider that the Rights Issue will increase the capital base of the Group as well as provide additional funds at a reasonable cost to maintain its turnover for its margin financing business and to support the Group's continuing development and business growth and also give the Qualifying Shareholders the opportunity to subscribe for the Shares

according to their respective shareholding interests in the Company. Hence, it was considered that fund raising through the Rights Issue is in the interest of the Company and the Shareholders as a whole.

In the event that the Rights Issue cannot proceed, the Company may consider to (i) scale-down the margin financing business; and (ii) reduce both the number of clients and the size of the margin loan portfolio in order to meet the requirement under the Guidelines.

USE OF PROCEEDS

The Board (including the independent non-executive Directors after taking into account of the advice of the Independent Financial Adviser) considers that the Rights Issue is in the best interest of the Company and its Shareholders as a whole. The Rights Issue will not only strengthen the Group's capital base but will also allow all Qualifying Shareholders the opportunity to maintain their respective pro rata shareholding interests in the Company and participate in the development of the Group through the Rights Issue.

The gross proceeds from the Rights Issue amounts to approximately HK\$189.8 million before expenses. The estimated expenses in relation to the Rights Issue, including the financial, legal, and other professional advisory fees, underwriting commission, placing commission, printing and translation expenses will be borne by the Company. The estimated net proceeds of the Rights Issue amounts to approximately HK\$184.7 million. The Company intends to apply the abovementioned net proceeds from the Rights Issue for the following purposes: (i) approximately HK\$170 million for the increase of the capital base of the Group in order to meet the new regulatory standards; and (ii) approximately HK\$14.7 million for use as the Group's general working capital, including but not limited to administrative expenses such as employees' salaries.

FUTURE FUND RAISING EXERCISES

As at the Latest Practicable Date, save for the Rights Issue, the Company has not identified any fund raising plan which can fulfill the above purposes for use of proceeds. The proceeds from the Rights Issue may not satisfy the upcoming financing needs in full if there is any change of the Group's current circumstances and business plan or if there shall arise any other potential business opportunities.

Hence, the Board does not rule out the possibility that the Company will conduct further debt and/or equity fund raising exercises when suitable fund raising opportunities arise in order to support future developments of the Group. The Company will make further announcement in this regard in accordance with the Listing Rules as and when appropriate.

FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS

The Company had not conducted any fund raising activities in the past 12 months immediately preceding the date of the Announcement.

INFORMATION ON THE UNDERWRITER

The Underwriter is an investment holding company, and is not engaged in underwriting of issue of securities in its ordinary course of business. Mr. Ng, the Substantial Shareholder of the Company, an executive Director and the Chairman of the Board, holds the entire beneficial interests in the Underwriter. Mr. Ng and his close associates, including the Underwriter, have complied with Rule 7.19(1)(b) of the Listing Rules that they are the controlling shareholders. Directors of the Underwriter are Ms. Cheung, Mr. Gorges and Mr. Ng Yuk Fung, Peter, a son of Mr. Ng and he does not hold any Shares as at the Latest Practicable Date.

It is the intention of the Underwriter to continue to carry on the businesses of the Group and to continue the employment of the employees of the Group. The Underwriter has no intention to introduce any changes to the businesses of the Group including redeployment of the fixed assets of the Group.

As of 30 June 2019, the Underwriter did not have any bank overdrafts or loans, or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities.

LISTING RULES IMPLICATIONS

As the Rights Issue, if proceeded with, will increase the number of the issued shares of the Company by more than 50%, the Rights Issue is conditional on approval by the Shareholders in the EGM by a resolution on which the Directors (excluding the independent non-executive Directors) and chief executive of the Company and their respective associates shall abstain from voting in favour under Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules since there is no controlling shareholder. Accordingly, (i) Mr. Ng and his associates (namely the Underwriter, Fung Shing Group Limited, Parkfield Holdings Limited, Ronastar Investments Limited and Mr. Paul Ng) who held an aggregate of 100,161,607 Shares, representing approximately 33.24% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) Ms. Cheung who held 12,300,311 Shares, representing approximately 4.08% of the issued share capital of the Company as at the Latest Practicable Date, shall abstain from voting in the resolution to approve the Rights Issue in the EGM by way of poll under the Listing Rules. For details of the shareholdings held by Mr. Ng and his associates as well as Ms. Cheung and the relationships among them, please refer to the disclosure under the section headed "Shareholding Structure of the Company" above. As explained in the section headed "Takeovers Code Implications and Application for Whitewash Waiver" below, Mr. Gorges, being a director of the Underwriter, and any Shareholder who is involved in, or interested in, the Underwriting Agreement, the Rights Issue and/or the Whitewash Waiver, shall also abstain from voting in the resolution to approve the Rights Issue in the EGM by way of poll under the Takeovers Code. As at the Latest Practicable Date, Mr. Gorges held 5,000,000 Shares, representing approximately 1.66% of the issued share capital of the Company. As such, the parties who are required to abstain from voting in the resolution to approve the Rights Issue collectively held 117,461,918 Shares or approximately 38.98% of the Shares in issue as at the Latest Practicable Date.

The Company has not conducted any rights issue or open offer within the 12-month period immediately preceding the date of the Announcement, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such

12-month period, nor has it issued any bonus securities, warrants or other convertible securities within such 12-month period. The Rights Issue does not result in a theoretical dilution effect of 25% or more on its own. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

As at the Latest Practicable Date, Mr. Ng, the Substantial Shareholder of the Company and an executive Director and the Chairman of the Board, holds the beneficial interests in all the issued share capital of the Underwriter. Therefore, the Underwriter is a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions contemplated under the Underwriting Agreement constitute connected transactions for the Company under the Listing Rules and the Underwriting Agreement is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, Mr. Ng, the Substantial Shareholder of the Company, an executive Director, the Chairman of the Board and the beneficial owner of the entire interests in the Underwriter, is interested in 88,461,607 Shares, representing approximately 29.36% of the total number of issued Shares. Also, Ms. Cheung and Mr. Gorges, each a party acting in concert with the Underwriter, owns 12,300,311 Shares and 5,000,000 Shares as at the Latest Practicable Date, representing approximately 4.08% and 1.66% of the Shares currently in issue respectively. Each of Mr. Paul Ng and Ms. Jessica Ng, the son and the daughter of Mr. Ng, is presumed to be a party acting in concert with Mr. Ng and, hence, the Underwriter under the Takeovers Code by virtue of being a close relative of Mr. Ng. As at the Latest Practicable Date, Mr. Paul Ng owns 11,700,000 Shares, representing approximately 3.88% of the Shares currently in issue, and Ms. Jessica Ng does not hold any Share and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Accordingly, the Underwriter and the parties acting in concert with it are interested in 117,461,918 Shares in aggregate, representing approximately 38.98% of the Shares currently in issue (refer to the section headed "Shareholding Structure of the Company" in this letter for details).

Pursuant to the Underwriting Agreement, the Underwriter will subscribe for and take up 301,673,195 Rights Shares (including 18,450,466 Rights Shares and 7,500,000 Rights Shares that Ms. Cheung and Mr. Gorges are entitled to subscribe respectively) that are not subscribed for under the Rights Issue in the event that no Qualifying Shareholder (other than the Underwriter, its close associates and Mr. Paul Ng who have provided the Irrevocable Undertakings) takes up any Rights Share under the Rights Issue and no placement made under the Compensatory Arrangements.

If the Underwriter takes up the Underwritten Shares in full, it will result in an increase in the aggregate shareholding of the Underwriter and parties acting in concert with it (including but not limited to Mr. Ng and his close associates, Mr. Paul Ng, Ms. Cheung and Mr. Gorges) in the Company from approximately 38.98% of the existing issued share capital of the Company to approximately 75.59% of the then enlarged issued share capital of the Company immediately after completion of the Rights Issue. As the Underwriter and parties acting in concert with it, currently as at the Latest Practicable Date hold not less than 30%, but not more

than 50%, of the voting rights of the Company collectively (refer to the section headed “Shareholding Structure of the Company” in this letter for details), if any one or more of them (including the Underwriter) acquires additional voting rights and such acquisition has the effect of increasing their collective holding of voting rights of the Company by more than 2% from the lowest collective percentage holding of such persons in the 12-month period ending on and inclusive of the date of the relevant acquisition, the Underwriter and parties acting in concert with it would be required to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it unless the Whitewash Waiver is granted.

An application has been made by the Underwriter to the Executive for granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver, will be granted and will be conditional upon, among others, the approval of the Whitewash Waiver by at least 75% of the Independent Shareholders voting in person or by proxy at the EGM by way of poll. The Underwriter (holding 7,178,761 Shares, representing approximately 2.38% of the Shares currently in issue as at the Latest Practicable Date) and parties acting in concert with it, namely Mr. Ng, Mr. Paul Ng, Ms. Cheung, Mr. Gorges, Fung Shing Group Limited, Parkfield Holdings Limited and Ronastar Investments Limited (holding 11,133,264 Shares, 11,700,000 Shares, 12,300,311 Shares, 5,000,000 Shares, 23,526,030 Shares, 44,623,680 Shares and 1,999,872 Shares, representing approximately 3.70%, 3.88%, 4.08%, 1.66%, 7.81%, 14.81% and 0.66% of the Shares currently in issue as at the Latest Practicable Date, respectively), and any Shareholder who is involved in, or interested in, the Underwriting Agreement, the Rights Issue and/or the Whitewash Waiver shall abstain from voting on the relevant resolutions at the EGM.

As at the Latest Practicable Date, the Company does not believe that the Rights Issue gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this circular, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible but in any event before the date of EGM. The Company notes that the Executive may not grant the Whitewash Waiver if the Rights Issue does not comply with other applicable rules and regulations.

Save as disclosed in this circular, (i) there is no consideration, compensation or benefit in whatever form paid or to be paid by the Group to the Underwriter or any party acting in concert with it in connection with the Rights Issue; (ii) there is no understanding, arrangement, agreement or special deal between the Group on the one hand, and the Underwriter and any party acting in concert with it on the other hand; and (iii) there is no understanding, arrangement or agreement or special deal between (1) any Shareholder; and (2) the Underwriter and parties acting in concert with it, or the Company, its subsidiaries or associated companies.

Hon. Raymond Arthur William Sears, Q.C., an independent non-executive Director, is deemed to be interested in 53,000 Shares by virtue of his spouse’s interest in such Shares. Save for the nominal interest in the abovementioned 53,000 Shares, which represents approximately 0.02% of the Shares currently in issue, as a Shareholder, voting on the Board resolutions approving the Rights Issue, the Underwriting Agreement and the Whitewash Waiver and

making recommendations to the Independent Shareholders after taking into account the advice of the Independent Financial Adviser, Hon. Raymond Arthur William Sears, Q.C. has no involvement in the aforesaid transactions. Thus, he is not required to abstain from voting on the resolutions approving the Rights Issue, the Underwriting Agreement and Whitewash Waiver at the EGM and is a member of the Independent Board Committee.

Shareholders and public investors should note that the maximum potential holding of voting rights in the Company by the Underwriter and parties acting in concert with it (including but not limited to Mr. Ng and his close associates, Mr. Paul Ng, Ms. Cheung and Mr. Gorges) will exceed 50% of the voting rights of the Company immediately upon completion of the Rights Issue, and that the Underwriter and parties acting in concert with it may increase their holding without incurring further obligation under Rule 26 of the Takeovers Code to make a general offer.

DEALINGS OF THE SHARES BY THE UNDERWRITER AND PARTIES ACTING IN CONCERT WITH IT

There has been no dealing of Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company by the Underwriter and parties acting in concert with it during the Relevant Period.

As at the Latest Practicable Date, the Underwriter and parties acting in concert with it are interested in 117,461,918 Shares (or approximately 38.98% of the issued share capital of the Company). Save as disclosed, the Underwriter and parties acting in concert with it:

- (a) do not hold or have any control or direction over any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (b) have not received any irrevocable commitment or arrangements to vote in favour of or against the resolutions in respect of the Underwriting Agreement or the Rights Issue or the Whitewash Waiver; and
- (c) have not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

Save for the transactions contemplated under the Underwriting Agreement (including the Irrevocable Undertakings), there is no arrangement (whether by way of option, indemnity or otherwise) in relation to shares of the Underwriter or the Company which may be material to the Underwriting Agreement, the Whitewash Waiver and/or the Rights Issue.

There was no agreements or arrangements relating to the circumstances in which the Underwriter may or may not invoke or seek to invoke a pre-condition or a condition to the Underwriting Agreement, the Whitewash Waiver and the Rights Issue other than those set out in the sub-section headed “Conditions of the Rights Issue” under the above section headed “The Underwriting Agreement” to which the Underwriter is a party.

EGM

The register of members of the Company will be closed from Monday, 19 August 2019 to Friday, 23 August 2019 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM.

The EGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things: (i) the Rights Issue; (ii) the Underwriting Agreement; and (iii) the Whitewash Waiver. Only the Independent Shareholders will be entitled to vote on the resolutions to approve the Rights Issue, Underwriting Agreement and the Whitewash Waiver at the EGM.

In accordance with the Listing Rules and the Takeovers Code, (i) the Underwriter and its respective associates; (ii) any parties acting in concert with the Underwriter; (iii) the Directors (including, among others, Mr. Ng, Ms. Cheung and Ms. Jessica Ng but excluding members of the Independent Board Committee) and chief executive of the Company and their respective associates; and (iv) Shareholders who are involved in, or interested in, the Rights Issue, the Underwriting Agreement or the Whitewash Waiver, including but not limited to the Underwriter and parties acting in concert with it, will be required to abstain from voting on the resolution(s) to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the EGM. Save as disclosed, no other Shareholder is involved or interested in or has a material interest in the transactions contemplated under the Rights Issue, the Underwriting Agreement and the Whitewash Waiver and, hence, is required to abstain from voting on the resolution(s) to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver at the EGM. As explained in the section headed “Takeovers Code Implications and Application for Whitewash Waiver” above, Hon. Raymond Arthur William Sears, Q.C., an independent non-executive Director deemed to be interested in 53,000 Shares, is not required to abstain from voting on the relevant resolutions at the EGM.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors has been established to provide recommendation to the Independent Shareholders in connection with the Rights Issue, the Underwriting Agreement and the Whitewash Waiver. Lego Corporate Finance has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver as to whether they are fair and reasonable, and as to voting.

Subject to, among others, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver being approved at the EGM, the Prospectus Documents or the Prospectus, whichever being appropriate, will be despatched to the Qualifying Shareholders and, for information only, the Non-qualifying Shareholders in due course.

ADJUSTMENT TO EXERCISE PRICE AND NUMBER OF SHARE OPTIONS

Adjustment to exercise price and number of the Share Options may be required under the relevant terms of the share option scheme of the Company upon completion of the Rights Issue. The Company will notify the holders of the Share Options and the Shareholders by way of announcement, if and when necessary, upon completion of the Rights Issue and such adjustment, if required to be made, will be confirmed by its auditor.

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-section headed "Termination of the Underwriting Agreement" under the section headed "The Underwriting Agreement" above). Accordingly, the Rights Issue may or may not proceed.

The Shares are expected to be dealt in on an ex-rights basis from Tuesday, 27 August 2019. Dealings in the Rights Shares in nil-paid form are expected to take place from Monday, 9 September 2019 to Monday, 16 September 2019 (both days inclusive). Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares.

Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

RECOMMENDATION

The Directors (including the independent non-executive Directors after taking into account of the advice of the Independent Financial Adviser) are of the opinion that the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors after taking into account of the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of all resolution(s) to be proposed at the EGM.

Your attention is drawn to the Letter from the Independent Board Committee containing its recommendations to the Independent Shareholders set out on pages 46 to 47 of this circular and the Letter from the Independent Financial Adviser containing its advice to the Independent

Shareholders and the Independent Board Committee and the principal factors which it has considered in arriving at its advice with regard to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver as set out on pages 48 to 75 of this circular.

Shareholders are advised to read carefully the Letter from the Independent Board Committee regarding the Rights Issue, the Underwriting Agreement and the Whitewash Waiver on page 46 to 47 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 48 to 75 of this circular, considers that the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Independent Shareholders. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Rights Issue, the Underwriting Agreement and the Whitewash Waiver at the EGM.

ADDITIONAL INFORMATION

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

By the order of the Board
South China Financial Holdings Limited



Ng Yuk Mui Jessica
Executive Director