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SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

(1) CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;

AND

(2) APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

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



CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

On 7 April 2020 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber (a connected person of the Company) in relation to, among others, the issue of the Convertible Bonds in an aggregate principal amount of HK\$50,000,000 due on the date falling on the third (3rd) anniversary of the Issue Date. The initial Conversion Price is HK\$0.22 per Conversion Share, subject to adjustments set out in the Convertible Bonds. The Convertible Bonds do not bear any interest.

The Convertible Bonds carry conversion rights to convert into the Conversion Shares at the Conversion Price of HK\$0.22 per Conversion Share (subject to adjustments). As at the date of this announcement, the Company has a total of 301,277,070 Shares in issue. Assuming (i) the conversion rights under the Convertible Bonds are exercised in full at the Conversion Price; and (ii) there is no other change to the total number of issued Shares from the date of this announcement to the date of exercise in full of the conversion rights under the Convertible Bonds, a total of 227,272,727 new Shares, being the Conversion Shares, may be allotted and issued to the Subscriber (subject to certain restrictions), representing approximately 75.44% of the total number of issued Shares as at the date of this announcement and approximately 43.00% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM. The net proceeds from the Subscription are estimated to be approximately HK\$49.4 million.

The conversion of the Convertible Bonds is subject to, among others, that the conversion and the issue of the Conversion Shares will not result in the Bondholder(s) and parties acting in concert with it, taken together, directly or indirectly, exceeding the 2% creper rule under Rule 26.1 of the Takeovers Code within any 12-month period from a holding of voting rights of between 30% and 50% and a mandatory general offer obligation will be triggered under the Takeovers Code, unless either (a) such Bondholder and parties acting in concert with it comply with the Takeovers Code and make a general offer to acquire for all the Shares already owned by them; or (b) a whitewash waiver to waive the requirement for such Bondholder and parties acting in concert with it to make the mandatory general offer is approved by the Independent Shareholders and is granted by the Executive before the date of completion of the conversion. For details are set out in the paragraph headed “PRINCIPAL TERMS OF THE CONVERTIBLE BONDS — Conversion rights” below.

Completion of the Subscription is subject to the satisfaction and/or waiver (as the case may be) of the conditions precedent set out in the Subscription Agreement. In addition, the Subscription Agreement may be terminated in certain circumstances.

IMPLICATIONS UNDER THE LISTING RULES

The Subscriber is wholly and beneficially owned by Mr. Ng, who is an executive Director and a substantial Shareholder and is directly or indirectly beneficially holding 88,461,607 Shares (representing approximately 29.36% of the total number of issued Shares) as at the date of this announcement. Accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules.

Therefore, the Subscription Agreement and the transaction contemplated thereunder constitute a connected transaction for the Company and are subject to the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules by way of poll at the EGM. The Subscriber and its associates, namely Mr. Ng, Uni-Spark, Ronastar, Parkfield, Fung Shing and Mr. Paul Ng, holding approximately 33.24% of the total number of issued Shares in aggregate as at the date of this announcement, shall abstain from voting at the EGM to be convened to consider and, if thought fit, to approve the Subscription Agreement and the transaction contemplated thereunder (including the obtaining of the Specific Mandate).

Save for the Rights Issue, the Company has not conducted any rights issue or open offer within the 12-month period immediately preceding the date of this 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 as part of any rights issue or open offer within such 12-month period. The Subscription does not result in theoretical dilution effect of 25% of more on its own or in aggregate with the Rights Issue.

The Independent Board Committee has been established by the Board to advise the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder.

APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

Opus Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder.

GENERAL

A circular containing, among other things, (i) details of the Subscription Agreement and the transaction contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder; and (iv) the notice of the EGM and a form of proxy will be despatched to the Shareholders on or before 29 April 2020.

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

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

On 7 April 2020 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in an aggregate principal amount of HK\$50,000,000.

THE SUBSCRIPTION AGREEMENT

A summary of the principal terms of the Subscription Agreement is set out below.

Date: 7 April 2020 (after trading hours)

Parties:

Issuer: The Company

The Subscriber: Total Grace Investments Limited

The Convertible Bonds will be fully subscribed by the Subscriber.

The Subscriber is an investment holding company. As at the date of this announcement, the Subscriber is wholly and beneficially owned by Mr. Ng, who is a substantial Shareholder and an executive Director. Accordingly, the Subscriber is a connected person under the Listing Rules.

Subject matter

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$50,000,000 on the Completion Date.

Conversion Price

The Conversion Price of HK\$0.22 per Conversion Share: (a) is equivalent to the closing price of HK\$0.22 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; (b) represents a premium of approximately 0.92% over the average closing price of approximately HK\$0.218 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to and including the Last Trading Date; and (c) represents a discount of approximately 3.08% to the average closing price of approximately HK\$0.227 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day.

The Conversion Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market prices of the Shares as shown above. The Directors (other than Mr. Ng and Ms. Jessica Ng who have material interest in the transaction as contemplated under the Subscription Agreement; and the independent non-executive Directors who will form an opinion after taken into consideration of the recommendation in form of a letter of advice from the Independent Financial Adviser) consider that the Conversion Price and the terms and conditions of the Subscription Agreement are fair and reasonable and are based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

Conversion Shares

The Convertible Bonds carry the conversion rights to convert into the Conversion Shares at the Conversion Price of HK\$0.22 per Conversion Share (subject to adjustment). As at the date of this announcement, the Company has a total of 301,277,070 Shares in issue. Assuming (i) the conversion rights under the Convertible Bonds are exercised in full at the Conversion Price; and (ii) there is no other change to the total number of issued Shares from the date of this announcement to the date of exercise in full of the conversion rights under the Convertible Bonds, a total of 227,272,727 new Shares, being the Conversion Shares, may be allotted and issued to the Subscriber (subject to certain restrictions), representing approximately 75.44% of the total number of issued Shares as at the date of this announcement and approximately 43.00% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares. Further details of the shareholding of the Company upon exercise of the conversion rights under the Convertible Bonds by the Subscriber are set out in the paragraph headed “EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY” below.

The Conversion Shares, when allotted and issued, will be credited as full paid, free from any encumbrance and will rank *pari passu* in all respects with the Shares in issue on the conversion date. The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon conversion of the Convertible Bonds.

Conditions precedent

The Subscription is conditional upon the following conditions being fulfilled (or waived, if applicable) at or before 5:00 p.m. on the Longstop Date (Hong Kong time):

- (1) the Listing Committee having granted listing of and permission to deal in the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds;
- (2) the Company having performed all of its obligations under the Subscription Agreement to be performed on or before Completion and none of the warranties set out in the Subscription Agreement having been breached by the Company in any material respect (or, if capable of being remedied, has been remedied), or is misleading or untrue in any material respect;
- (3) the Board approving and authorising the execution and completion of the Subscription Agreement and the instrument constituting the Convertible Bonds, the creation and issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds; and
- (4) the passing of all necessary Independent Shareholders’ approval of the Company (as required), among other matters, regarding the issue of the Convertible Bonds, authorising the Board to allot and issue the Conversion Shares upon exercise of conversion rights attaching to the Convertible Bonds in compliance with the applicable requirements under the Listing Rules.

The Subscriber may, at its discretion and upon such terms as it thinks fit, waive compliance with the condition (2) set out above. None of the other conditions may be waived by either party. In the event that any of the above conditions is not fulfilled (or waived, if applicable) on or before the Longstop Date, the Subscription will not proceed.

Completion

Completion will take place on the Completion Date after the fulfilment or waiver (as the case may be) of the conditions set out in the Subscription Agreement.

On the Completion Date, the Convertible Bonds will be issued by the Company to the Subscriber at full face value, that is, HK\$50,000,000.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

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

Issuer:	The Company
Principal amount:	HK\$50,000,000
Issue price:	100% of the principal amount of the Convertible Bonds
Interest rate:	Nil
Maturity Date:	The date falling on the third (3rd) anniversary of the Issue Date or, if that is not a Business Day, the first Business Day thereafter.
Status:	The Convertible Bonds constitute direct, unsecured, unsubordinated and unconditional obligations of the Company and rank <i>pari passu</i> and without any preference or priority among themselves. The payment obligations of the Company under the Convertible Bonds shall, subject to such exceptions as may be provided by applicable laws, rank at least <i>pari passu</i> with all its other present and future direct, unsecured, unsubordinated and unconditional obligations.
Conversion right:	<p>Subject as provided in the terms of the Convertible Bonds, the Convertible Bonds are convertible in whole or in part into new Shares any time during the period commencing from the Issue Date, at the Conversion Price, subject to adjustment in accordance with the terms of the Convertible Bonds. Any conversion shall be made in amounts of not less than a whole multiple of HK\$10,000,000 and no fraction of a Share shall be issued on conversion.</p> <p>If the issue of Conversion Shares following the exercise by a Bondholder of the conversion rights attaching to the Convertible Bonds held by such Bondholder would result in:</p>

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

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

Conversion period: The holder(s) of the Convertible Bonds shall have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares for the period commencing from the Issue Date up to 4:00 p.m. on the Maturity Date (Hong Kong time).

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

Adjustments events: The Conversion Price may be adjusted in the event of any alteration in the capital structure of the Company whether arising by reason of a capitalisation of profits or reserves, rights issue or other offer of securities to holder of Shares (including any securities convertible into share capital or warrants or options to subscribe for any share capital of the Company), consolidation or sub-division of Shares or reduction of the share capital of the Company or otherwise howsoever except where any such event is specifically exempted under the terms and conditions of the Convertible Bonds, including but not limited to any issue or grant of Shares, options or other securities of the Group wholly or partly convertible into, or rights to acquire, Shares to the Directors or employees of the Group or their personal representatives pursuant to an employee share scheme of the Group.

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

Further provisions in relation to adjustment to Conversion Price:

- (1) Where more than one event gives or may give rise to an adjustment occurs within such a short period of time that the Approved Professional Adviser considers in good faith that the operation of the above provisions would need to be subject to some modifications in order to give the intended commercial result, such modifications shall be made to the operation of the above provisions as may be advised by the Approved Professional Adviser, acting as an expert, to be in its opinion appropriate in order to give such intended result.

- (2) No adjustment will be made (i) where Shares are allotted or issued pursuant to any exercise of the conversion rights or (ii) upon any issue or grant of Shares, options or other securities of the Group wholly or partly convertible into, or rights to acquire, Shares to directors or employees of the Group or their personal representatives pursuant to an employee share scheme of the Group.
- (3) No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares.

Conversion Shares to be issued under the Convertible Bonds:

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

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

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

Redemption upon maturity:

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

Redemption by the Company:

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

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

Events of default:

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

- (1) **Other default:** a default is made by the Company in the performance or observance of any covenant, condition or provision contained in the instrument constituting the Convertible Bonds or in the Convertible Bonds and on its part to be performed or observed (other than the covenant to pay the principal and premium (if any) in respect of any of the Convertible Bonds) and such default continues for the period of fourteen (14) days immediately following the service by any holder of the Convertible Bonds on the Company of notice specifying brief details of such default and requiring such default to be remedied; or
- (2) **Breach of Subscription Agreement:** a material breach of any of the terms of the Subscription Agreement, including a breach of any warranty therein which is not discovered until after the issue and delivery of the Convertible Bonds; or
- (3) **Dissolution of the Company and Disposals:** a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all or substantially all of its assets, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by an ordinary resolution of holders of the Convertible Bonds; or
- (4) **Encumbrances:** an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the Company; or
- (5) **Distress etc.:** a distress, execution or seizure before judgment is levied or enforced upon or sued out against a material part of the assets or undertaking or property of the Company and is not discharged within seven days thereof; or
- (6) **Trading suspension and delisting:** if trading of the Shares are suspended by the Stock Exchange for more than thirty (30) consecutive trading days other than as a result of a suspension for clearance of an announcement or circular pursuant to Chapters 14 and/or 14A of the Listing Rules or the Takeovers Code (to the extent relevant to a suspension in the case of a takeover) or listing of the Shares on the Stock Exchange are being revoked or withdrawn; or

- (7) **Insufficient shares:** save and except where otherwise provided in the instrument constituting the Convertible Bonds, if there is not a sufficient number of Shares available for the fulfilment of the obligations regarding the conversion of the Convertible Bonds.

Undertakings by the Company:

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

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

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

REASONS FOR AND BENEFITS OF THE ISSUE OF CONVERTIBLE BONDS AND USE OF PROCEEDS

The Company is an investment holding company. The principal activities and business of the Group 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, sale of jewellery products and investment holding.

The Directors (not including Mr. Ng and Ms. Jessica Ng who have material interest in the transaction as contemplated under the Subscription Agreement; and the members of the Independent Board Committee who will express their view after having considered the recommendation in form of a letter of advice from the Independent Financial Adviser), after considering various fund raising methods under the prevailing market conditions, considered that the issue of Convertible Bonds would maximise the certainty on the outcome of fund-raising and at the lowest cost. In respect of debt financing, the Company was unable to obtain any debt financing at terms acceptable to the Company due to the fact that 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, debt financing will create immediate additional interest burden to the Group. In respect of rights issue or open offer, the timetable for the Subscription is expected to be shorter since both the documentation and procedural matters for the Subscription are relatively simple and direct, and the fund-raising outcome of the Subscription is more certain than the rights issue or open offer in view of the proposed rights issue previously announced by the Company on 3 July 2019, which was not approved by the then independent Shareholders at the extraordinary general meeting of the Company on 23 August 2019. Although the allotment and issue of Conversion Shares will dilute the shareholding interests of the existing public Shareholders in the Company in the future, the Group's gearing ratio will be decreased accordingly.

The Directors (not including Mr. Ng and Ms. Jessica Ng who have material interest in the transaction as contemplated under the Subscription Agreement; and the members of the Independent Board Committee who will express their view after having considered the recommendation in form of a letter of advice from the Independent Financial Adviser) consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscriber, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The gross proceeds from the Subscription amount to HK\$50.0 million before expenses. The estimated expenses in relation to the Subscription, including the financial, legal, and other professional advisory fees, printing and translation expenses will be borne by the Company. The estimated net proceeds of the Subscription amount to approximately HK\$49.4 million. The Company intends to apply the abovementioned net proceeds from the Subscription for the following purposes: (i) approximately HK\$30.0 million for the development of brokerage and lending business; and (ii) approximately HK\$19.4 million for the use of the Group's general working capital, including but not limited to, administrative expenses such as employees' salaries.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

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

	As at the date of this announcement		Upon conversion of the Convertible Bonds not resulting the Subscriber and the parties acting concert with it exceeding the 2% creeper rule under Rule 26.1 of the Takeovers Code		Upon full conversion of the Convertible Bonds (Note 1)	
	No. of Shares	Approximate	No. of Shares	Approximate	No. of Shares	Approximate
		(Note 2)		(Note 2)		(Note 2)
Subscriber and parties acting in concert						
Mr. Ng (Notes 3 and 4)	11,133,264	3.70	11,133,264	3.58	11,133,264	2.11
Uni-Spark (Notes 3 and 4)	7,178,761	2.38	7,178,761	2.31	7,178,761	1.36
Fung Shing (Note 3)	23,526,030	7.81	23,526,030	7.56	23,526,030	4.45
Parkfield (Note 3)	44,623,680	14.81	44,623,680	14.33	44,623,680	8.44
Ronastar (Note 3)	1,999,872	0.66	1,999,872	0.64	1,999,872	0.38
The Subscriber (Note 3)	—	—	10,100,000	3.24	227,272,727	43.00
Mr. Paul Ng (Note 5)	11,700,000	3.88	11,700,000	3.76	11,700,000	2.21
Ms. Cheung Choi Ngor (Notes 4 and 6)	12,300,311	4.08	12,300,311	3.95	12,300,311	2.33
Mr. Richard Howard Gorges (Note 6)	<u>5,000,000</u>	<u>1.66</u>	<u>5,000,000</u>	<u>1.61</u>	<u>5,000,000</u>	<u>0.95</u>
Sub-total	117,461,918	38.98	127,561,918	40.98	344,734,645	65.23
Hon. Raymond Arthur William Sears, Q.C. (Note 4)	53,000	0.02	53,000	0.02	53,000	0.01
Other public Shareholders	<u>183,762,152</u>	<u>61.00</u>	<u>183,762,152</u>	<u>59.00</u>	<u>183,762,152</u>	<u>34.76</u>
Total:	<u>301,277,070</u>	<u>100.00</u>	<u>311,377,070</u>	<u>100.00</u>	<u>528,549,797</u>	<u>100.00</u>

Notes:

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

FUND RAISING ACTIVITIES IN THE PAST 12-MONTH PERIOD

Save as the Rights Issue, the Company had not conducted any other fund raising activities in the past 12 months immediately preceding the date of this announcement.

MANDATE TO ISSUE THE CONVERSION SHARES

The Subscription Agreement and the transaction contemplated thereunder, including the issue and allotment of the Conversion Shares under the Specific Mandate of the Company, are subject to the approval of the Independent Shareholders at the EGM.

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

IMPLICATIONS UNDER THE LISTING RULES

The Subscriber wholly and beneficially owned by Mr. Ng, who is an executive Director and a substantial Shareholder and is directly or indirectly beneficially holding 88,461,607 Shares (representing approximately 29.36% of the total number of issued Shares) as at the date of this announcement. Accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules.

Therefore, the Subscription Agreement and the transaction contemplated thereunder constitute a connected transaction for the Company and are subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the EGM. The Subscriber and its associates, namely Mr. Ng, Uni-Spark, Ronastar, Parkfield, Fung Shing and Mr. Paul Ng, holding approximately 33.24% of the total number of issued Shares in aggregate as at the date of this announcement, shall abstain from voting at the EGM to be convened to consider and, if thought fit, to approve the Subscription Agreement and the transaction contemplated thereunder (including the obtaining of the Specific Mandate).

Save for the Rights Issue, the Company has not conducted any rights issue or open offer within the 12-month period immediately preceding the date of this 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 as part of any rights issue or open offer within such 12-month period. The Subscription does not result in theoretical dilution effect of 25% or more on its own or in aggregate with the Rights Issue.

The Independent Board Committee has been established by the Board to advise the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder.

APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

Opus Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder.

GENERAL

A circular containing, among other things, (i) details of the Subscription Agreement and the transaction contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder; and (iv) the notice of the EGM and a form of proxy will be despatched to the Shareholders on or before 29 April 2020.

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

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

DEFINITIONS

Unless the context requires otherwise, the following terms have the following meanings in this announcement:

“acting in concert”	has the meaning ascribed to it by the Takeovers Code
“Approved Professional Adviser”	an independent firm of merchant bank or audit firm of international repute in the opinion of the Company appointed in accordance with the provisions of the instrument constituting the Convertible Bonds

“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of the Directors
“Bondholder(s)”	a person whose name is registered in the register of Bondholders, and “holder(s)” in relation to a Convertible Bond has a corresponding meaning
“Business Day”	a day (other than a Saturday, Sunday or public holiday and days on which a typical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong) on which licensed banks in Hong Kong are generally open for ordinary banking business throughout their normal business hours
“BVI”	the British Virgin Islands
“Company”	South China Financial Holdings Limited, a company incorporated in Hong Kong whose Shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Subscription and shall take place on the Completion Date
“Completion Date”	the fifth Business Day following the date on which the conditions precedent set out in the Subscription Agreement are fulfilled (or such other date as the Company and the Subscriber may agree in writing)
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Conversion Price”	HK\$0.22 per Conversion Share (subject to adjustments pursuant to the terms and conditions of the Convertible Bonds)
“Conversion Share(s)”	new Share(s) to be allotted and issued by the Company upon the exercise of the conversion rights attached to the Convertible Bonds by the holder(s) of the Convertible Bonds pursuant to the terms and conditions of the instrument constituting the Convertible Bonds
“Convertible Bonds”	the HK\$50,000,000 convertible bonds due on the Maturity Date to be issued by the Company to the Subscriber
“Director(s)”	director(s) of the Company

“EGM”	an extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Subscription Agreement and the transaction contemplated thereunder, including (among other matters) the allotment and issue of Convertible Bonds and the Conversion Shares to be issued upon conversion of the Convertible Bonds under Specific Mandate (or any adjournment thereof)
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegate(s)
“Fung Shing”	Fung Shing Group Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Ng
“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 PRC
“Independent Board Committee”	an independent board committee of the Board established by the Board, comprising all the independent non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Chung Eric, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and as to voting at the EGM
“Independent Financial Adviser”	Opus Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the Subscription Agreement and the transaction contemplated thereunder
“Independent Shareholders”	Shareholders, other than the Subscriber and its associates who are required to abstain from voting at the EGM pursuant to the Listing Rules
“Issue Date”	the date of first issue of the Convertible Bonds
“Last Trading Day”	7 April 2020, being the last trading day for the Shares before the entering into of the Subscription Agreement

“Listing Committee”	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	30 June 2020 or such other date as the Company and the Subscriber shall agree in writing
“Maturity Date”	the date falling on the third (3rd) anniversary of the Issue Date or, if that is not a Business Day, the first Business Day thereafter
“Mr. Ng”	Mr. Ng Hung Sang, an executive Director and a substantial Shareholder
“Mr. Paul Ng”	Mr. Ng Yuk Yeung Paul, son of Mr. Ng
“Ms. Jessica Ng”	Ms. Ng Yuk Mui Jessica, daughter of Mr. Ng
“Parkfield”	Parkfield Holdings Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Ng
“parties acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“PRC”	the People’s Republic of China which, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of PRC and Taiwan
“Public Float Requirement”	the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Shares which are listed on the Stock Exchange shall be held by the public for the purpose of the Listing Rules
“Rights Issue”	the proposed rights issue of 451,915,605 shares in the Company by way of rights on the basis of three rights shares for every two shares, which was announced by the Company on 3 July 2019 and has lapsed on 23 August 2019
“Ronastar”	Ronastar Investments Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Ng
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)

“Specific Mandate”	the specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to allot and issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Total Grace Investments Limited, a company incorporated in the BVI and wholly and beneficially owned by Mr. Ng, being the subscriber under the Subscription Agreement
“Subscription”	the subscription of the Convertible Bonds pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 7 April 2020 and entered into between the Company and the Subscriber in relation to the Subscription
“substantial Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Uni-Spark”	Uni-Spark Investments Limited, a company incorporated in Hong Kong with limited liability and wholly and beneficially owned by Mr. Ng
“%”	per cent.

By Order of the Board
South China Financial Holdings Limited
南華金融控股有限公司
Cheung Choi Ngor
Executive Director

Hong Kong, 7 April 2020

As at the date of this announcement, the Directors are (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor and Ms. Ng Yuk Mui Jessica as executive Directors; and (2) Hon. Raymond Arthur William Sears, Q.C., Mrs. Tse Wong Siu Yin Elizabeth and Mr. Tung Woon Cheung Eric as independent non-executive Directors.