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If you have sold or transferred all your shares in ShiFang Holding Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, the licensed securities dealer or registered institution or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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SHIFANG HOLDING LIMITED

十方控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1831)

**SUBSCRIPTION OF CONVERTIBLE BONDS
UNDER THE SPECIFIC MANDATE
CONSTITUTING A CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial Adviser to the Company



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



Terms used in this cover shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 7 to 24 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 25 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 57 of this circular.

A notice convening the EGM to be held on Friday, 8 March 2019 at 3:00 p.m. at Room 1, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you intend to attend the EGM, you are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

21 February 2019

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DEFINITIONS

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

“associate(s)”	having the meaning ascribed thereto under the Listing Rules or the Takeovers Code, where the context requires
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or a day on which a typhoon signal no. 8 or above or black rainstorm signal is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which banks in Hong Kong are generally open for retail banking business
“Bye-laws”	a new set of bye-laws of the Company proposed to be adopted by the Company and to take effect upon the continuation of the Company in Bermuda
“Cancellation of Share Premium Account”	the proposed cancellation of the entire amount standing to the credit of the share premium account of the Company
“Capital Reduction”	the proposed reduction of the issued share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK\$0.39 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.40 to HK\$0.01
“Capital Reorganisation”	having the meaning as defined in the Capital Reorganisation Announcement, comprising the Share Consolidation, the Capital Reduction and the Share Subdivision
“Capital Reorganisation Announcement”	the Company’s announcement dated 18 January 2019 in relation to, amongst other things, the Change of Domicile, the adoption of New Memorandum of Continuance and Bye-laws, the Cancellation of Share Premium Account and the Capital Reorganisation

DEFINITIONS

“CB Subscription”	the subscription of the Convertible Bonds by the Subscriber on the terms and subject to the conditions of the CB Subscription Agreement
“CB Subscription Agreement”	the convertible bond subscription agreement entered into between the Company and the Subscriber dated 24 January 2019 in relation to the subscription by the Subscriber of the Convertible Bonds in the principal amount of HK\$250,000,000
“Change of Domicile”	the proposed change of domicile of the Company from the Cayman Islands to Bermuda
“Company”	ShiFang Holding Limited (十方控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1831)
“Conditions”	the conditions precedent to completion of the CB Subscription as contained in the CB Subscription Agreement and summarized in the sub-paragraph headed “ <i>Conditions Precedent to the CB Subscription</i> ” under the paragraph headed “ <i>THE CB SUBSCRIPTION</i> ” in this circular
“connected person(s)”	having the meaning ascribed thereto under the Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$0.40 each in the share capital of the Company immediately after the Share Consolidation becoming effective but before the Capital Reduction and the Share Subdivision becoming effective
“Conversion New Share(s)”	the New Share(s) to be allotted and issued by the Company upon the exercise by the holders of the conversion rights attaching to the Convertible Bonds
“Conversion Period”	the period commencing on the date of issue of the Convertible Bonds and ending on the Maturity Date

DEFINITIONS

“Conversion Price”	HK\$0.24 per Conversion New Shares, subject to adjustments and the terms and conditions of the Convertible Bonds
“Convertible Bonds”	the convertible bonds proposed to be issued by the Company in the aggregate principal amount of HK\$250,000,000 (RMB215,750,000) under the CB Subscription Agreement
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the Independent Shareholders to consider and, if thought fit, approve the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate
“Existing Share(s)”	ordinary share(s) of HK\$0.10 each in the existing share capital of the Company prior to the Capital Reorganisation
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company, comprising all independent non-executive Directors, namely, Mr. Zhou Chang Ren, Mr. Wong Heung Ming, Henry and Mr. Cai Jian Quan, which was established by the Board for the purpose of advising the Independent Shareholders on the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate

DEFINITIONS

“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate
“Independent Shareholders”	Shareholders other than (i) the Subscriber, Mr. Chen and their associates; and (ii) any Shareholders who have a material interest (within the meaning of the Listing Rules) in the CB Subscription and the Specific Mandate and are required by the Listing Rules to abstain from voting on the relevant resolution(s) at the EGM
“Latest Practicable Date”	15 February 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the day falling on the third anniversary of the date of issue of the Convertible Bonds or if such date is not a Business Day, the next Business Day
“Mr. Chen”	Mr. Chen Zhi, a Shareholder and an executive Director, and the sole legal and beneficial owner and the sole director of the Subscriber
“New Memorandum of Continuance”	a new memorandum of continuance of the Company proposed to be adopted by the Company and to take effect upon continuation of the Company in Bermuda
“New Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company after the Capital Reorganisation

DEFINITIONS

“PRC”	the People’s Republic of China
“Promissory Notes”	the three-years, 5.5% per annum promissory notes issued by the Company in the principal amount of HK\$100 million as partial consideration for the acquisition of Supreme Glory Limited on 8 May 2018 which shall become repayable in May 2021
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share Consolidation”	the proposed consolidation of every four issued and unissued Existing Shares into one Consolidated Share
“Share Subdivision”	the proposed sub-division of each of the authorised but unissued Consolidated Shares of HK\$0.40 each into forty New Shares of HK\$0.01 each
“Shareholders”	holder(s) of the Share(s)
“Share(s)”	the Existing Share(s) or the New Share(s), as the context may require
“Specific Mandate”	the specific mandate proposed to be obtained from the Independent Shareholders at the EGM to allot and issue the Conversion New Shares upon conversion of the Convertible Bonds to be issued under the CB Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	TopBig International Development Limited, a company incorporated in the British Virgin Islands with limited liability whose entire issued share capital is legally and beneficially owned by Mr. Chen
“Subscriber Loan Facility”	the nine-months, 5% per annum loan facility granted by the Subscriber to the Company in the maximum principal amount of HK\$100 million as disclosed in the Company’s announcement dated 8 May 2018

DEFINITIONS

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

* *If there is any inconsistency between the Chinese names of PRC entities, departments, facilities or titles mentioned in this circular and their English translations, the Chinese version shall prevail.*

For the purposes of illustration only, the amounts denominated in RMB in this circular were converted into HK\$ at the rates of HK\$1.000 = RMB0.844 (for financial figures of the Company as at 30 June 2018) and HK\$1.000 = RMB0.863 (for all other figures).

LETTER FROM THE BOARD



SHIFANG HOLDING LIMITED

十方控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1831)

Executive Directors:

Mr. Siuming Tsui (*Chief Executive Officer*)

Mr. Chen Zhi

Mr. Yu Shi Quan

Registered office:

P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Non-executive Directors:

Mr. Chen Wei Dong

Ms. Chen Min

*Principal place of business
in Hong Kong:*

Room 2103, 21/F., "Port 33"
No. 33 Tseuk Luk Street
San Po Kong, Kowloon
Hong Kong

Independent non-executive Directors:

Mr. Zhou Chang Ren

Mr. Wong Heung Ming, Henry

Mr. Cai Jian Quan

21 February 2019

To the Shareholders

Dear Sir or Madam,

**SUBSCRIPTION OF CONVERTIBLE BONDS
UNDER THE SPECIFIC MANDATE
CONSTITUTING A CONNECTED TRANSACTION**

INTRODUCTION

Reference is made to the announcements of the Company dated 24 January 2019 and 15 February 2019 in relation to the CB Subscription.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other matters, (i) further information on the CB Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the terms of the CB Subscription Agreement; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the CB Subscription Agreement; (iv) other information prescribed by the Listing Rules; and (v) the notice of the EGM.

THE CB SUBSCRIPTION

As disclosed in the Capital Reorganisation Announcement dated 18 January 2019, the Company proposed to, amongst other things: (i) change its domicile from the Cayman Islands to Bermuda; (ii) adopt the New Memorandum of Continuance and the Bye-laws to replace its existing memorandum and articles of association of the Company to comply with the laws of Bermuda; (iii) cancel the entire amount standing to the credit of its share premium account and transfer the credits arising from such cancellation to an account designated as its contributed surplus account before the Change of Domicile becoming effective; (iv) have four issued and unissued Existing Shares of HK\$0.10 each to be consolidated into one Consolidated Share of HK\$0.40 each; and (v) cancel its paid-up capital to the extent of HK\$0.39 on each Consolidated Share such that the nominal value of each New Share is reduced to HK\$0.01.

On 24 January 2019 (after trading hours), the Company entered into the CB Subscription Agreement with the Subscriber pursuant to which the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK\$250,000,000 (RMB215,750,000).

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Issuer	:	The Company
Total principal amount	:	HK\$250,000,000 (RMB215,750,000)
Interest	:	3% per annum
Maturity Date	:	Unless converted or redeemed earlier, the RMB principal amount of the Convertible Bonds shall be redeemed by the Company in cash on the day falling on the third anniversary of the date of issue of the Convertible Bonds (or if such date is not a Business Day, the next Business Day).

LETTER FROM THE BOARD

- Conversion Period : The period commencing on the date of issue of the Convertible Bonds and ending on the Maturity Date.
- Conversion Rights : Holders of the Convertible Bonds shall have the right to convert the whole or part of the amount of the Convertible Bonds into Conversion New Shares at the initial Conversion Price of HK\$0.24 per Conversion New Share at any time during the Conversion Period, provided always that the holder shall not convert the Convertible Bonds to an extent which would either (a) reduce the public float of the Company to less than 25% (or the relevant percentage as prescribed by the Listing Rules) of the issued Shares or (b) result in any change of control (as defined in the Takeovers Code) of the Company or otherwise trigger any mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder of the Convertible Bonds who exercises the conversion rights (or its concert party) unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with (collectively, the “**Conversion Restrictions**”).
- Conversion New Shares : Based on the initial Conversion Price of HK\$0.24 per Conversion New Share, an aggregate of 1,041,666,666 Conversion New Shares will be allotted and issued by the Company upon exercise in full of the conversion rights attaching to the Convertible Bonds, representing: (a) approximately 182.1% of the existing issued share capital of the Company (taking into effect of the successful implementation of the Capital Reorganisation); and (b) approximately 64.6% of the issued share capital of the Company as enlarged by the issue of 1,041,666,666 Conversion New Shares, assuming there is no other change in the issued share capital of the Company between the Latest Practicable Date and the full conversion of the Convertible Bonds save for the Capital Reorganisation. The aggregate nominal value of the maximum 1,041,666,666 Conversion New Shares is HK\$10,416,666.66.

LETTER FROM THE BOARD

Conversion Price : The initial Conversion Price of HK\$0.24 per Conversion New Share represents: (i) a premium of approximately 9.09% over the theoretical closing price of HK\$0.220 per New Share, based on the closing price of HK\$0.055 per Existing Share as quoted on the Stock Exchange on the date of signing of the CB Subscription Agreement; (ii) a premium of approximately 4.53% over the theoretical average closing price of HK\$0.2296 per New Share, based on the average closing price of HK\$0.0574 per Existing Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of signing of the CB Subscription Agreement; and (iii) a discount of approximately 6.25% to the theoretical closing price of HK\$0.256 per New Share, based on the closing price of HK\$0.064 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date. The Conversion Price is subject to adjustments upon occurrence of certain “Adjustment Events” as described below.

Adjustments Events : The Conversion Price will be subject to adjustments upon the occurrence of the following events (the “**Adjustment Events**”):

- (i) an alteration of the nominal amount of the Shares by reason of consolidation, subdivision, reclassification or otherwise;
- (ii) an issue of Shares credited as fully paid to Shareholders by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve), other than Shares paid up out of profits or reserves and issued in lieu (in whole or in part) of a cash dividend, being a dividend which the Shareholders concerned would or could otherwise have received and which does not constitute a capital distribution (as such term is defined in the CB Subscription Agreement);

LETTER FROM THE BOARD

- (iii) an issue of Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 80% of the market price of the Shares;
- (iv) an issue of Shares being made wholly for cash at a price less than 80% of the market price of the Shares;
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for Shares, at a consideration per Share which is less than 80% of the market price of the Shares, or the conversion, exchange or subscription rights of any such securities (other than in accordance with the terms applicable thereto) are altered or modified so that the consideration per Share is less than 80% of the market price of the Shares;
- (vi) an issue of Shares for the acquisition of asset at a total effective consideration per Share which is less than 80% of the market price of the Shares; and
- (vii) an issue of any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares for the acquisition of asset at a total effective consideration initially receivable for such securities which is less than 80% of the market price of the Shares.

LETTER FROM THE BOARD

The adjustment mechanisms above are requested by the Subscriber to safeguard its legitimate economic interest by way of anti-dilutive provisions customarily found in terms of convertible securities. The 80% benchmark comparison with market price as mentioned in paragraphs (iii) to (vii) above is requested by the Company to allow for the flexibility of the Company to launch equity or convertible fund-raising or to issue consideration shares with a modest discount to market price, especially under general mandate permissible under the Listing Rules, by way of concession of the Subscriber. The Company considers that the 80% benchmark is fair and reasonable and was reached following arms' length negotiation between the Company and the Subscriber to strike a careful balance between the Subscriber's legitimate interest and the Company's flexibility.

- Events of Default : If any of the following events ("**Events of Default**") occurs, a holder of the Convertible Bonds shall be entitled to give a notice in writing to the Company to require the Company to forthwith redeem the Convertible Bonds outstanding and held by such holder at the principal amount then outstanding together with interest of 3% per annum calculated from the date of issue of the bond up to and including the date of repayment:
- (i) there is a failure by the Company to pay the principal of the Convertible Bonds or deliver the Conversion New Shares pursuant to the conditions of the Convertible Bonds; or
 - (ii) the Company does not perform or comply with any one or more of its other obligations under the Convertible Bonds which default is incapable of remedy, or is not remedied within 10 days after notice requiring the same to be remedied is served by a bondholder on the Company; or

LETTER FROM THE BOARD

- (iii) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a material part of the property, assets or revenues of the Company or any of its subsidiaries; or
- (iv) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or a material part of the assets or undertaking of the Company or any of its subsidiaries; or
- (v) the Company or any of its significant subsidiaries is insolvent or bankrupt or unable to pay its debts as and when they fall due or proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Company or such significant subsidiary; or
- (vi) an order is made or an effective resolution passed for winding-up or dissolution of the Company or any of its significant subsidiaries, or the Company or any of its significant subsidiaries ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation; or
- (vii) proceedings are initiated against the Company or any of its significant subsidiaries under any applicable bankruptcy or insolvency law; or
- (viii) if the trading of the Shares on the Stock Exchange is halted or suspended for more than ten Business Days or any event occurs which may lead to the withdrawal of listing status of the Company; or

LETTER FROM THE BOARD

- (ix) if it shall become unlawful for the Company to perform all or any of its obligations under the Convertible Bonds or the Convertible Bonds shall for any reason cease to be in full force or effect or be declared void or illegal by any court of competent jurisdiction; or
- (x) if there are any litigation, arbitration, prosecution or other legal proceedings outstanding against the Company or any of its subsidiaries, or any litigation, arbitration, prosecution or other legal proceedings are threatened against the Company or its subsidiaries, which may have a significant financial impact on the Group or may have a material adverse effect on the operations or financial position of the Group; or
- (xi) any event of default occurs under the terms of other contractual obligations or indebtedness (including contingent indebtedness under guarantees or indemnities) of the Company or its subsidiaries, save and except (a) indebtedness or liabilities incurred in the Group's ordinary and usual course of business whose existence or quantum is genuinely contested by the Company or its subsidiaries, or (b) indebtedness which is non-recourse or not recoverable by the alleged creditor from the general assets of the Company or its subsidiaries, or (c) the amount of alleged default is less than 5% of the net tangible assets of the Group; or
- (xii) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to above.

Transferability : The Convertible Bonds and the Conversion New Shares are freely transferable in whole amounts or multiples of units of principal amount of HK\$1,000,000 (or RMB863,000), provided that no Convertible Bonds may be transferred to connected persons of the Company without the prior written consent of the Company.

LETTER FROM THE BOARD

Redemption : Subject to the provisions of Events of Default, the Convertible Bonds may not be redeemed by the holder before the Maturity Date.

The Convertible Bonds may be redeemed in whole or part by the Company before the Maturity Date at the redemption price which is equivalent to the RMB principal amount of the redeemed Convertible Bonds plus interest of 3% per annum calculated from the date of issue of the bond up to and including the date of redemption.

Voting : Prior to conversion, the Convertible Bonds shall not confer on the holders the right to vote at any general meetings of the members of the Company.

Other terms : While any Convertible Bonds remain outstanding, no capital distribution shall be made by the Company.

The Convertible Bonds are denominated in dual currency at the fixed exchange rate of HK\$1.00 = RMB0.863 as agreed by the Subscriber and the Company on the date of signing of the CB Subscription Agreement. Due to the fixing of the agreed exchange rate, the number of 1,041,666,666 Conversion New Shares is pre-fixed and shall be unaffected by any exchange rate fluctuation between HK\$ and RMB. Where the Convertible Bonds are redeemed in cash pursuant to their terms without conversion, all full or partial repayment shall be made in RMB, the functional currency of the Company's accounts.

Listing : No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

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

LETTER FROM THE BOARD

Ranking of the Conversion : The Conversion New Shares will, when issued and
New Shares allotted, rank *pari passu* in all respects among themselves
and with all other fully paid New Shares in issue.

Conditions Precedent to the CB Subscription

Completion of the CB Subscription Agreement is conditional upon:

- (1) the Shareholders having approved the Capital Reorganisation at the EGM or a separate general meeting of the Shareholders to be held by the Company;
- (2) the Capital Reorganisation having been completed;
- (3) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Conversion New Shares upon conversion of the Convertible Bonds, and such approval not having been revoked or cancelled prior to completion of the CB Subscription;
- (4) the obtaining by the Company of the approval of the Independent Shareholders at the EGM in respect of the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate; and
- (5) the compliance of any other requirements imposed by the Stock Exchange and/or the SFC in relation to the CB Subscription and the allotment and issue of the Conversion New Shares, whether under the Listing Rules, the Takeovers Code or otherwise.

None of the Conditions above can be waived by any party in any event. The long stop date for the fulfillment of the Conditions is 30 April 2019 (the “**Long Stop Date**”). If the Conditions are not fulfilled at or before 5:00 p.m. on the Long Stop Date, then unless the Company and the Subscriber mutually agree to further extend the Long Stop Date, the CB Subscription Agreement shall lapse and become null and void and the parties to the CB Subscription Agreement shall be released from all obligations thereunder forthwith, save for liabilities for any antecedent breaches thereof.

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

Completion

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

LETTER FROM THE BOARD

Under the terms of the CB Subscription Agreement, the Subscriber has the right to nominate either itself, Mr. Chen or any corporate entity wholly-owned by the Subscriber or Mr. Chen to take up the Convertible Bonds on completion of the CB Subscription.

Information relating to the Subscriber and Mr. Chen

The Subscriber is a company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, the entire issued share capital of the Subscriber was legally and beneficially owned by Mr. Chen, an executive Director and a Shareholder holding, through himself and the Subscriber, an aggregate of 166,394,696 Existing Shares representing approximately 7.27% of the total issued share capital of the Company. The Subscriber is principally engaged in investment holding. Mr. Chen is the sole director of the Subscriber.

Mr. Chen, aged 53, is an executive Director and a Shareholder. He is a qualified accountant as conferred by the Ministry of Finance of the PRC. Mr. Chen was a cadre of the Fuzhou Minhou Tax Bureau from 1982 to 1989 (during which he was granted leave from 1985 to 1988 to pursue his studies at Fujian Radio and Television University), deputy section chief of the Fuzhou Economic and Technology Development Area Tax Bureau from 1989 to 1993, and subsequently the section chief from 1993 to 2002. He joined the Group in 2003 and pioneered the distinctive business model of cooperating with newspaper partners to provide integrated print media services to advertisers, undertook the main decision-making role in the management of the Group's overall operations and oversaw the strategic development of the Group. He was appointed as the chairman, chief executive officer and an executive Director of the Company on 9 December 2009, resigned as the chief executive officer of the Company on 29 January 2016 and resigned as the chairman of the Board on 25 February 2016. Mr. Chen has accumulated more than ten years of relevant experience from developing the business of the Group and possesses a deep understanding of the PRC printed media and advertising industries. Mr. Chen graduated from Fujian Radio and Television University in 1988 with a diploma in financial economics. Mr. Chen is the brother of Ms. Chen Min, a non-executive Director.

Specific Mandate

The Conversion New Shares under the CB Subscription will be allotted and issued under the Specific Mandate to be obtained from the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CB SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally engaged in the businesses of publishing and advertising in the PRC. The Group has been focusing on restructuring its publishing and advertising businesses by consolidating with cultural and film media businesses in the PRC. In recent years, the Group acquired the media, resort and eco-tourism integrated development projects of Beijing Studio City (through the acquisition of Supreme Glory Limited) and Yongtai Kungfu Distinctive Town with the view to broadening the Group's income stream in the long run and reducing its reliance on the downtrend printed media business.

As disclosed in the interim report of the Company for the six months ended 30 June 2018, the Group recorded net current liabilities of approximately RMB23.09 million (equivalent to approximately HK\$27.35 million) as at 30 June 2018. As at 30 June 2018, the current assets of the Group amounted to approximately RMB99.52 million (equivalent to approximately HK\$117.91 million), of which the most significant items being: (a) cash and cash equivalents of approximately RMB46.80 million (equivalent to approximately HK\$55.45 million), principally comprising of the registered and paid up capital required to be maintained in the Group's PRC subsidiaries required for their operations and development and cannot be remitted outside China for the Group's loan repayment and administrative overheads generally, due to foreign exchange restrictions in the PRC; and (b) properties held for sale of approximately RMB34.52 million (equivalent to approximately HK\$40.90 million) which were acquired in exchange of the provision of advertising services to real estate developers in the PRC in or before 2015. Due to the slow-moving property market of second-tier cities in the PRC (including Baotou, Xi'an, Fuzhou and Kunming where these properties were located), the Group intends to lease the properties out to third parties to wait for better market opportunity to sell these properties at higher price. Currently, no operating leases to rent out the properties have been entered into or commenced. The Group will reclassify such properties to investment property upon the commencement of operating leases to rent out such properties in accordance with the relevant provisions of International Financial Reporting Standards.

As at 30 June 2018, the current liabilities of the Group amounted to approximately RMB122.61 million (equivalent to approximately HK\$145.27 million), of which the most significant items being: (a) the amount due to the Subscriber of approximately RMB50.16 million (equivalent to approximately HK\$59.44 million) under the Subscriber Loan Facility as disclosed in the Company's announcement dated 8 May 2018; (b) other payables and accrued expenses of approximately RMB39.06 million (equivalent to approximately HK\$46.28 million); and (c) current income tax liabilities of approximately RMB20.46 million (equivalent to approximately HK\$24.25 million). Subsequent to 30 June 2018, in order to meet the debts and liabilities fallen due including the other payables and accrued expenses, the Subscriber Loan Facility was fully drawn down by the Company. The outstanding principal and interest under the Subscriber Loan Facility is repayable in or around February 2019.

LETTER FROM THE BOARD

Apart from the current liabilities, the Group also had outstanding Promissory Notes in the principal amount of HK\$100 million carrying interests at 5.5% per annum which are repayable in May 2021. Subject to funding availability, these Promissory Notes may be early redeemed by the Company at 102% of the principal amount, thereby saving interest expenses of HK\$5.5 million per year assuming full redemption by, say, May 2019.

In view of the net current liabilities of the Group recorded as at 30 June 2018, the loss-making situation of the Group since 2012 due to the downturn of traditional printed media business, the debts and liabilities which shall become due imminently (particularly, the Subscriber Loan Facility) and the interest expenses on the outstanding Promissory Notes, the Group has an imminent need to arrange a sizeable fund raising exercise in order to strengthen the financial position of the Group to prepare for its future development.

The Directors are of the view that the CB Subscription offers a good opportunity for the Group (i) to raise a considerable amount of fund for a longer period to strengthen the financial position of the Group; (ii) to ease the liquidity pressure of the Group caused by the imminent due date of the Subscriber Loan Facility in February 2019 and the interest expenses on the outstanding Promissory Notes; (iii) to enable the Group to repay its other debts when they fall due; and (iv) to generally replenish the Group's working capital to enable the Group to identify suitable investment or growth opportunities with the view to generate positive cash flow and strengthen its financial position in the long run.

The Board has considered various fund raising methods including long term bank borrowings, placement of Shares to independent third parties, rights issue, open offer and the CB Subscription. In respect of long-term bank borrowings of meaningful loan size, the Company was given to understand that commercial banks generally requested for the provision of real estate properties as collateral to fortify the loan, which the Company was unable to give. As regards equity fund raising exercises (such as placement of Shares to independent third parties, rights issue and/or open offer), the Company has approached several securities brokerage firms about the possibility and feasibility of acting as placing agent or underwriter of the Company, and was given to understand that the securities brokerage firms generally requested a placing/underwriting commission ranging from 3.0% to 5.0% based on the fund raising size, and a significant discount on the placing/subscription price so as to increase the attractiveness of the equity fund raising exercise. In addition, any placing would only be conducted on best-effort basis, rendering the outcome and the exact amount of proceeds to be raised from the placing being uncertain and subject to market condition.

LETTER FROM THE BOARD

The terms of the CB Subscription Agreement and the Convertible Bonds (including the Conversion Price and the interest rate) were determined based on arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Existing Shares as quoted on the Stock Exchange and market interest rates of unsecured loans. Notwithstanding the potential dilution effect which may arise from the conversion of the Convertible Bonds, having considered that (i) the CB Subscription offers a good opportunity for the Company to raise a significant amount of additional funding to improve the financial position of the Group; and (ii) the terms of the CB Subscription Agreement and the Convertible Bonds (including the Conversion Price and the interest rate) are fair and reasonable, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after considering the advice from the Independent Financial Adviser, and except Mr. Chen and Ms. Chen Min who abstained from voting due to their material interest in the CB Subscription) are of the view that the CB Subscription is fair and reasonable and on normal commercial terms and the entering into of the CB Subscription Agreement is in the interests of the Company and its Shareholders (including the Independent Shareholders) as a whole.

Mr. Chen (an executive Director) and Ms. Chen Min (a non-executive Director and sister of Mr. Chen) abstained from voting on the Board level regarding the CB Subscription. Save for Mr. Chen and Ms. Chen Min, no other Director regarded himself to have a material interest in the CB Subscription which requires him to disclose his interest and/or to abstain from voting on the Board level regarding the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate.

The gross proceeds and net proceeds (after deducting costs and expenses incidental to the CB Subscription) to be raised from the CB Subscription are expected to be HK\$250 million (equivalent to approximately RMB215.75 million) and approximately HK\$245 million (equivalent to approximately RMB211.44 million), respectively. The net issue price per Conversion New Share is approximately HK\$0.235 (equivalent to approximately HK\$0.059 per Existing Share prior to the Capital Reorganisation). The Board intends to apply the net proceeds as to: (a) approximately HK\$105 million (equivalent to approximately RMB90.62 million) for repaying the principal and accrued interest on the Subscriber Loan Facility; (b) approximately HK\$107.5 million (equivalent to approximately RMB92.77 million) for early redemption of the Promissory Notes and the accrued interest thereon; and (c) approximately HK\$32.5 million (equivalent to approximately RMB28.05 million) for the Group's general expenses such as salaries, rental expenses and professional fees.

LETTER FROM THE BOARD

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

The Company had not conducted any equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

SHAREHOLDING STRUCTURE OF THE COMPANY

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

	As at the Latest Practicable Date		Immediately after the issue of the Conversion New Shares upon full exercise of conversion rights attaching to the Convertible Bonds (assuming completion of the Capital Reorganisation) (Note 6)	
	No. of Existing Shares	%	No. of New Shares (Note 7)	%
The Subscriber and its associates (Note 1)	166,394,696	7.27	1,083,265,340	67.13
Mr. Yu Shi Quan (Note 2)	892,196	0.04	223,049	0.01
Shi Jianxiang	186,850,000	8.17	46,712,500	2.89
Happy Day Development Limited (Note 3)	157,340,018	6.88	39,335,004	2.44
Rich Land Limited (Note 4)	132,084,068	5.77	33,021,017	2.05
Chung Tai Limited (Note 5)	130,807,645	5.72	32,701,911	2.03
Other public Shareholders	<u>1,513,627,498</u>	<u>66.16</u>	<u>378,406,875</u>	<u>23.45</u>
Total	<u>2,287,996,121</u>	<u>100.00</u>	<u>1,613,665,696</u>	<u>100.00</u>

LETTER FROM THE BOARD

Notes:

1. The Subscriber is beneficially and wholly-owned by Mr. Chen, who is an executive Director and a Shareholder. As at the Latest Practicable Date, the Subscriber directly held 159,362,041 Existing Shares and Mr. Chen directly held 7,032,655 Existing Shares.
2. Mr. Yu Shi Quan is an executive Director.
3. Happy Day Development Limited is a controlled corporation wholly-owned by Chen Rong.
4. Rich Land Limited is a controlled corporation wholly-owned by Wang Fucai.
5. Chung Tai Limited is a controlled corporation wholly-owned by Chen Rui.
6. This is for illustration purposes only as it is restricted that the Convertible Bonds shall not be converted to an extent which would either (a) reduce the public float of the Company to less than 25% (or the relevant percentage as prescribed by the Listing Rules) of the issued Shares; or (b) result in any change of control (as defined in the Takeovers Code) of the Company or otherwise trigger any mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder of the Convertible Bonds who exercises the conversion rights (or its concert party) unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with.
7. The Capital Reorganisation involves a proposal of four-for-one share consolidation and a proposed capital reduction such that the par value of the New Shares is reduced to HK\$0.01 per New Share.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, the entire issued share capital of the Subscriber was legally and beneficially owned by Mr. Chen, an executive Director and a Shareholder holding, through himself and the Subscriber, an aggregate of 166,394,696 Existing Shares representing approximately 7.27% of the total issued share capital of the Company. Accordingly, the entering into of the CB Subscription Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and Independent Shareholders' approval requirements pursuant to the Listing Rules.

The Conversion New Shares under the CB Subscription will be issued under the Specific Mandate, which is subject to Independent Shareholders' approval at the EGM.

EGM

The EGM will be held for the purposes of considering and, if thought fit, approving the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate. In accordance with the Listing Rules, the Subscriber and its associates (including Mr. Chen) will be required to abstain from voting on the resolution(s) in respect of the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate at the EGM.

LETTER FROM THE BOARD

Save as disclosed above, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Shareholders had a material interest in the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate. Accordingly, no Shareholder is required to abstain from voting at the EGM in respect of the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate.

WARNING

SHAREHOLDERS AND/OR POTENTIAL INVESTORS OF THE COMPANY SHOULD NOTE THAT COMPLETION OF THE CB SUBSCRIPTION AGREEMENT IS CONDITIONAL UPON THE SATISFACTION OF CERTAIN CONDITIONS PRECEDENT TO THE CB SUBSCRIPTION AGREEMENT. ACCORDINGLY, THE CB SUBSCRIPTION MAY OR MAY NOT PROCEED. SHAREHOLDERS AND/OR POTENTIAL INVESTORS OF THE COMPANY SHOULD THEREFORE EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY. PERSONS WHO ARE IN DOUBT AS TO THE ACTION THEY SHOULD TAKE SHOULD CONSULT THEIR PROFESSIONAL ADVISERS.

RECOMMENDATION

The Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that the terms of the CB Subscription Agreement and the Convertible Bonds (including the Conversion Price and the interest rate) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser, and except Mr. Chen and Ms. Chen Min who abstained from voting due to their material interest in the CB Subscription) recommend the Independent Shareholders to vote for the resolution(s) to approve the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate. You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser mentioned above before deciding how to vote on the resolution(s) to be proposed at the EGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular and the notice convening the EGM.

Yours faithfully

By order of the Board

ShiFang Holding Limited

Siuming Tsui

Executive Director and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



SHIFANG HOLDING LIMITED

十方控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1831)

21 February 2019

To the Independent Shareholders

Dear Sir or Madam,

**SUBSCRIPTION OF CONVERTIBLE BONDS
UNDER THE SPECIFIC MANDATE
CONSTITUTING A CONNECTED TRANSACTION**

We have been appointed to form an independent board committee to consider and advise you on the terms of the CB Subscription Agreement and the Specific Mandate, details of which are set out in the circular issued by the Company to the Shareholders dated 21 February 2019 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser set out on pages 7 to 24 and pages 26 to 57 of the Circular, respectively, and the additional information set out in the appendix to the Circular.

Having taken into account the terms of the CB Subscription Agreement and having taken into consideration of the advice of the Independent Financial Adviser in relation thereto as set out on pages 26 to 57 of the Circular, we concur with the view of the Independent Financial Adviser and consider that although the CB Subscription is not in the ordinary and usual course of business of the Company, the terms of the CB Subscription Agreement are on normal commercial terms and the CB Subscription and the grant of the Specific Mandate are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate.

Yours faithfully,

For and on behalf of the Independent Board Committee

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the CB Subscription Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



21 February 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

SUBSCRIPTION OF CONVERTIBLE BONDS UNDER THE SPECIFIC MANDATE CONSTITUTING A CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the CB Subscription Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 21 February 2019 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 24 January 2019 (after trading hours), the Company entered into the CB Subscription Agreement with the Subscriber pursuant to which the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK\$250,000,000 (RMB215,750,000).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the entire issued share capital of the Subscriber was legally and beneficially owned by Mr. Chen, an executive Director and a Shareholder holding, through himself and the Subscriber, an aggregate of 166,394,696 Existing Shares representing approximately 7.27% of the total issued share capital of the Company. Accordingly, the entering into of the CB Subscription Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and Independent Shareholders' approval requirements pursuant to the Listing Rules. The Conversion New Shares under the CB Subscription will be issued under the Specific Mandate, which is subject to Independent Shareholders' approval at the EGM.

The EGM will be held for the purposes of considering and, if thought fit, approving the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate. In accordance with the Listing Rules, the Subscriber and its associates (including Mr. Chen) will be required to abstain from voting on the resolution(s) in respect of the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Zhou Chang Ren, Mr. Wong Heung Ming, Henry and Mr. Cai Jian Quan, has been established to advise the Independent Shareholders in relation to the CB Subscription Agreement and to make a recommendation as to (i) whether the CB Subscription is in the ordinary and usual course of business of the Group; (ii) whether the terms of the CB Subscription Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) how to vote with respect to the relevant resolution(s) at the EGM. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships with or interests in the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with our appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in relation to the CB Subscription Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the EGM and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and/or the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and continue to be so until the date of the EGM. The Company shall inform the Independent Shareholders as soon as possible if there is any material change to such information in accordance with the Listing Rules on or before the date of the EGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its respective subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in the businesses of publishing and advertising in the PRC. Set out in Table 1 below are certain consolidated financial information of the Group for each of the two years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018 as extracted from the annual report of the Company for the year ended 31 December 2017 (the “**Annual Report 2017**”) and the interim report of the Company for the six months ended 30 June 2018 (the “**Interim Report 2018**”), respectively.

Table 1: Financial information of the Group

	For the six months ended 30 June		For the year ended 31 December	
	2018	2017	2017	2016
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
Newspaper advertising	2,683	3,472	7,210	17,127
Marketing services	16,618	14,754	31,668	36,515
Printing services	<u>2,399</u>	<u>2,217</u>	<u>4,550</u>	<u>4,117</u>
	<u>21,700</u>	<u>20,443</u>	<u>43,428</u>	<u>57,759</u>
Loss for the period/year attributable to owners of the Company	(61,408)	(32,993)	(56,493)	(57,129)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June 2018	As at 31 December 2017	2016
	(Unaudited)	(Audited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	439,088	205,791	130,045
Current assets	99,520	106,532	237,382
Current liabilities	122,605	64,596	66,580
Net current (liabilities)/assets	(23,085)	41,936	170,802
Non-current liabilities	126,927	120	928
Net assets	289,076	247,607	299,919

For the year ended 31 December 2017

For the year ended 31 December 2017, the Group recorded revenue of approximately RMB43.43 million, representing a decrease of approximately 24.81% as compared to approximately RMB57.76 million for the previous year. Based on the Annual Report 2017, we noted that such decrease was mainly attributable to (i) the property macro-tightening measures, the intensified competition from online new media and the accelerated transformation of the advertising industry ecology, leading to a reduction in advertising spending by the Group's customers; and (ii) the slight decrease in revenue from marketing services.

For the year ended 31 December 2017, the Group recorded loss for the year attributable to owners of the Company of approximately RMB56.49 million, which has slightly narrowed by approximately 1.12% from approximately RMB57.13 million for the previous year. With reference to the Annual Report 2017, we noted that such decrease in loss attributable to owners of the Company was, primarily resulted from the improvement in gross profit margin due to the adoption of cost control and efficiency enhancement measures, leading to a turnaround of gross margin of newspaper advertising from a gross loss margin of -5.4% for 2016 to a 40.9% gross profit margin for 2017, notwithstanding the significant decrease in revenue from newspaper advertising.

As at 31 December 2017, the net current assets and net assets of the Group amounted to approximately RMB41.94 million and approximately RMB247.61 million, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the six months ended 30 June 2018

For the six months ended 30 June 2018, the Group recorded revenue of approximately RMB21.70 million, representing an increase of approximately 6.16% as compared to approximately RMB20.44 million for the previous corresponding period. With reference to the Interim Report 2018, we noted that such increase in revenue was principally due to the increase in revenue from marketing and printing services, which outweighed the decrease in revenue from newspaper advertising. To a large extent, the improvement was due to the solid foundation established by the Group's long-term experience, expertise, brand recognition and reputation.

For the six months ended 30 June 2018, the Group recorded loss attributable to owners of the Company of approximately RMB61.41 million, against the loss attributable to owners of the Company of approximately RMB32.99 million for the previous corresponding period. With reference to the Interim Report 2018, we noted that the substantial increase in loss was primarily due to, (i) higher professional fees arising from project acquisitions; (ii) increase in provision for an onerous operating lease; and (iii) fair value loss on financial assets at fair value through profit or loss.

As at 30 June 2018, the net current liabilities and net assets of the Company amounted to approximately RMB23.09 million and approximately RMB289.08 million, respectively.

2. Reasons for and benefits of the CB Subscription and use of proceeds

As disclosed in the Letter from the Board, the gross proceeds and net proceeds (after deducting costs and expenses incidental to the CB Subscription) to be raised from the CB Subscription are expected to be HK\$250 million (equivalent to approximately RMB215.75 million) and approximately HK\$245 million (equivalent to approximately RMB211.44 million), respectively. The net proceeds of approximately HK\$245 million is intended to be applied as to (i) approximately HK\$105 million (equivalent to approximately RMB90.62 million) for repayment of the principal and accrued interest on the Subscriber Loan Facility; (ii) approximately HK\$107.5 million (equivalent to approximately RMB92.77 million) for early redemption of the Promissory Notes and the accrued interest thereon; and (iii) approximately HK\$32.5 million (equivalent to approximately RMB28.05 million) for the Group's general expenses such as salaries, rental expenses and professional fees.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial conditions of the Group

As discussed in the above section headed “1. Background information of the Group”, the performance of the Group’s publishing and advertising businesses has been continuously impacted by the downturn of traditional printed media business, as seen from the consecutive loss-making performance in the past years. As further noted from the profit warning announcement of the Company dated 11 January 2019, it is disclosed that based on the current information available, the Group is expected to record a loss for the year ended 31 December 2018 which is principally resulting from (i) the continual decline in the revenue of the Group’s newspaper advertising business as adversely affected by competition from new online media; (ii) the staff costs and rental expenses required for the operations and administration of the Group; and (iii) fair value loss on financial assets at fair value through profit or loss. As seen from the foregoing, we are of the view that the operating environment of the Group’s business remains tough and the Group may need time to restructure its business strategy to accommodate the changing business environment so as to achieve a turnaround from its loss in the future.

As disclosed in the Interim Report 2018, the current assets and current liabilities of the Group amounted to approximately RMB99.52 million and approximately RMB122.61 million as at 30 June 2018, respectively, resulting in net current liabilities of approximately RMB23.09 million. As at 30 June 2018, the current assets of approximately RMB99.52 million mainly comprised (i) cash and cash equivalents of approximately RMB46.80 million which principally consisted of the registered and paid up capital required to be maintained in the Group’s PRC subsidiaries required for their operations and development and cannot be remitted outside China for the Group’s loan repayment and administrative overheads generally, due to foreign exchange restrictions in the PRC; and (ii) properties held for sale of approximately RMB34.52 million which were acquired in exchange of the provision of advertising services to real estate developers in the PRC in or before 2015, while the current liabilities of approximately RMB122.61 million mainly comprised (i) the amount due to the Subscriber of approximately RMB50.16 million under the Subscriber Loan Facility; (ii) other payables and accrued expenses of approximately RMB39.06 million; and (iii) current income tax liabilities of approximately RMB20.46 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the properties held for sale of approximately RMB34.52 million, as advised by management of the Company, in light of the slow-moving property market of second-tier cities in the PRC (including Baotou, Xi'an, Fuzhou and Kunming where the properties were located), the properties are currently intended to be leased out to third parties to wait for better market opportunity to sell these properties at higher price. Currently, no operating leases to rent out the properties have been entered into or commenced. The Group will reclassify such properties to investment property upon the commencement of operating leases to rent out such properties in accordance with the relevant provisions of International Financial Reporting Standards. Therefore, it is expected that such properties of the Group may not be readily realisable into cash at favourable terms in the short run. Based on the foregoing, it is noted that the internal resources of the Group are not sufficient to cover the outstanding loans due to the Subscriber under the Subscriber Loan Facility.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Relieving the repayment pressure and interest burden of the Group

Subsequent to 30 June 2018, in order to meet the debts and liabilities fallen due including the other payables and accrued expenses, the Subscriber Loan Facility (which carries an interest rate of 5% per annum) in the maximum principal amount of HK\$100 million was fully drawn down by the Company. The outstanding principal and interest accrued under the Subscriber Loan Facility, which amounted to approximately HK\$102.86 million in aggregate as of the date of the CB Subscription Agreement, is repayable in or around February 2019, which is closely approaching. On the other hand, apart from the Subscriber Loan Facility, the Group also had outstanding Promissory Notes in the principal amount of HK\$100 million carrying interests at 5.5% per annum which are repayable in May 2021. Subject to funding availability, these Promissory Notes may be early redeemed by the Company at 102% of the principal amount, thereby saving future interest expenses. We have reviewed the breakdown of interest expenses associated with the Promissory Notes as prepared by management of the Company and noted that, assuming the Company will redeem the Promissory Notes by May 2019, annual interest expenses of HK\$5.5 million would be saved each year. Also, with reference to the aforesaid breakdown, we noted that the outstanding principal amount and interests of the Promissory Notes as of the date of the CB Subscription Agreement amounted to approximately HK\$103.95 million in aggregate. Notably, the interest rate of 5.5% per annum under the Promissory Notes is higher than the interest rate of 3% per annum of the Convertible Bonds. We therefore consider that notwithstanding there is no imminent needs to repay the Promissory Notes, the early redemption of the Promissory Notes by the utilisation of part of the net proceeds from the Convertible Bonds which is to be issued at a lower interest rate would enable the Group to save future interest expenses which would otherwise incur, and thereby potentially improve the earnings of the Group. Accordingly, the issue of the Convertible Bonds would relieve the imminent funding need of the Company to satisfy its repayment obligation under the Subscriber Loan Facility and provide immediate liquidity for the Company to early settle its indebtedness under the Promissory Notes thereby mitigate the interest burden of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account the continuous loss-making performance of the Group and its current financial position, in particular (a) the net current liability position and the cash level of the Group as at 30 June 2018; and (b) the imminent need to settle the Subscriber Loan Facility to be due in or around February 2019, it is uncertain as to the sufficiency of the Group's internal resources for the repayment of its outstanding liabilities. Accordingly, the entering into of the CB Subscription Agreement would (i) effectively allow the Group to repay the Subscriber Loan Facility and early redeem the Promissory Notes; and (ii) avoid immediate cash outlay of the Group hence offer financial flexibility to deploy its cash resources for facilitation of business development. Therefore, we are of the view that the entering into of the CB Subscription is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Alternative funding methods considered

Upon enquiry with the management of the Company, we were given to understand that, to ease the liquidity pressure of the Group caused by the imminent due date of the Subscriber Loan Facility in February 2019 and the interest burden of the Promissory Notes, the Board has explored various fundraising methods including long term bank borrowings, placing of Shares to independent third parties, rights issue and open offer, apart from the CB Subscription. However, given (i) the continuous loss-making performance and the net current liability position of the Group; and (ii) commercial banks generally requested for the provision of real estate properties as collateral to fortify the loan which the Company was unable to give, the Directors consider that it is unlikely for the Group to obtain bank borrowings with favorable terms and without security. Given the requirement of material assets pledge for obtaining meaningful loan size with favorable terms, we concur with the view of the Company and consider that it is not commercially justifiable for the Group to raise fund by way of additional bank borrowings.

Furthermore, we were given to understand that the Company has approached several securities brokerage firms for the possibility and feasibility of acting as placing agents for potential placing exercise or underwriters for open offer or rights issue exercise. However, the securities brokerage firms generally requested a placing/underwriting commission ranging from 3.0% to 5.0% based on the fundraising size, and a significant discount on the placing/subscription price so as to increase the attractiveness of the equity fund raising exercise. Moreover, any placing would only be conducted on a best-effort basis which may impose uncertainty on the final amount of proceeds to be raised and subject to market condition. The issue of new Shares under placing exercise will also immediately dilute the shareholding interest of the existing Shareholders.

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On the other hand, it is expected that as a result of the conversion of the Convertible Bonds, the Subscriber will become the single largest Shareholder of the Company. With reference to the Letter from the Board, we noted that Mr. Chen, being the sole director of the Subscriber, joined the Group in 2003 and pioneered the distinctive business model of cooperating with newspaper partners to provide integrated print media services to advertisers, undertook the main decision-making role in the management of the Group's overall operations and oversaw the strategic development of the Group. Mr. Chen was at one stage the chairman and the chief executive officer of the Company between 9 December 2009 and 29 January 2016. Mr. Chen has over ten years' experience in developing the business of the Group and possesses a deep understanding of the PRC printed media and advertising industries.

In view of the various financing alternatives considered by the Company and taking into account that (i) it is difficult for the Group to obtain additional bank borrowings at favorable terms given its net current liability position and loss-making performance as recorded in recent years and the requirement of real estate properties as collaterals; (ii) costs such as placing or underwriting commission, documentation preparation costs and/or professional fees will be involved in equity fund raising exercises and considerable discount to the market prices of the Shares would be required by the investor(s); (iii) the Convertible Bonds require no security unlike the obtaining of bank borrowings; (iv) the CB Subscription represents an opportunity for the Company to raise fund without immediate dilution to the shareholdings of the existing Shareholders; and (v) the CB Subscription by the Subscriber (which is legally and beneficially owned by Mr. Chen, an executive Director and a Shareholder) is a show of confidence of Mr. Chen in and willingness to continue to lead the business and affairs of the Group, we concur with the Company's view that the entering into of the CB Subscription Agreement is the most preferred option over the other financing alternatives under present circumstances and is in the interests of the Company and the Shareholders as a whole.

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3. Principal terms of the CB Subscription Agreement

On 24 January 2019 (after trading hours of the Stock Exchange), the Company entered into the CB Subscription Agreement with the Subscriber, pursuant to which, the Company conditionally agreed to issue, and the Subscriber conditionally agree to subscribe for, the Convertible Bonds in the aggregate principal amount of HK\$250,000,000. Set out below is a summary of the principal terms of the Convertible Bonds:

Issuer	:	The Company
Total principal amount	:	HK\$250,000,000 (RMB215,750,000)
Interest	:	3% per annum
Maturity Date	:	Unless converted or redeemed earlier, the RMB principal amount of the Convertible Bonds shall be redeemed by the Company in cash on the day falling on the third anniversary of the date of issue of the Convertible Bonds (or if such date is not a Business Day, the next Business Day).
Conversion Period	:	The period commencing on the date of issue of the Convertible Bonds and ending on the Maturity Date.

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- Conversion Rights : Holders of the Convertible Bonds shall have the right to convert the whole or part of the amount of the Convertible Bonds into Conversion New Shares at the initial Conversion Price of HK\$0.24 per Conversion New Share at any time during the Conversion Period, provided always that the holder shall not convert the Convertible Bonds to an extent which would either (a) reduce the public float of the Company to less than 25% (or the relevant percentage as prescribed by the Listing Rules) of the issued Shares or (b) result in any change of control (as defined in the Takeovers Code) of the Company or otherwise trigger any mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder of the Convertible Bonds who exercises the conversion rights (or its concert party) unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with (collectively, the “**Conversion Restrictions**”).
- Conversion New Shares : Based on the initial Conversion Price of HK\$0.24 per Conversion New Share, an aggregate of 1,041,666,666 Conversion New Shares will be allotted and issued by the Company upon exercise in full of the conversion rights attaching to the Convertible Bonds, representing: (a) approximately 182.1% of the existing issued share capital of the Company (taking into effect of the successful implementation of the Capital Reorganisation); and (b) approximately 64.6% of the issued share capital of the Company as enlarged by the issue of 1,041,666,666 Conversion New Shares, assuming there is no other change in the issued share capital of the Company between 24 January 2019 and the full conversion of the Convertible Bonds save for the Capital Reorganisation. The aggregate nominal value of the maximum 1,041,666,666 Conversion New Shares is HK\$10,416,666.66.

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- Conversion Price : The initial Conversion Price is HK\$0.24 per Conversion New Share, which is subject to adjustments upon occurrence of certain “Adjustment Events” as described below.
- Adjustments Events : (i) an alteration of the nominal amount of the Shares by reason of consolidation, subdivision, reclassification or otherwise;
- (ii) an issue of Shares credited as fully paid to Shareholders by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve), other than Shares paid up out of profits or reserves and issued in lieu (in whole or in part) of a cash dividend, being a dividend which the Shareholders concerned would or could otherwise have received and which does not constitute a capital distribution (as such term is defined in the CB Subscription Agreement);
- (iii) an issue of Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 80% of the market price of the Shares;
- (iv) an issue of Shares being made wholly for cash at a price less than 80% of the market price of the Shares;

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- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for Shares, at a consideration per Share which is less than 80% of the market price of the Shares, or the conversion, exchange or subscription rights of any such securities (other than in accordance with the terms applicable thereto) are altered or modified so that the consideration per Share is less than 80% of the market price of the Shares;
- (vi) an issue of Shares for the acquisition of asset at a total effective consideration per Share which is less than 80% of the market price of the Shares; and
- (vii) an issue of any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares for the acquisition of asset at a total effective consideration initially receivable for such securities which is less than 80% of the market price of the Shares.

Events of Default : If any of the following events (“**Events of Default**”) occurs, a holder of the Convertible Bonds shall be entitled to give a notice in writing to the Company to require the Company to forthwith redeem the Convertible Bonds outstanding and held by such holder at the principal amount then outstanding together with interest of 3% per annum calculated from the date of issue of the bond up to and including the date of repayment:

- (i) there is a failure by the Company to pay the principal of the Convertible Bonds or deliver the Conversion New Shares pursuant to the conditions of the Convertible Bonds; or

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- (ii) the Company does not perform or comply with any one or more of its other obligations under the Convertible Bonds which default is incapable of remedy, or is not remedied within 10 days after notice requiring the same to be remedied is served by a bondholder on the Company; or
- (iii) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a material part of the property, assets or revenues of the Company or any of its subsidiaries; or
- (iv) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or a material part of the assets or undertaking of the Company or any of its subsidiaries; or
- (v) the Company or any of its significant subsidiaries is insolvent or bankrupt or unable to pay its debts as and when they fall due or proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Company or such significant subsidiary; or

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- (vi) an order is made or an effective resolution passed for winding-up or dissolution of the Company or any of its significant subsidiaries, or the Company or any of its significant subsidiaries ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation; or
- (vii) proceedings are initiated against the Company or any of its significant subsidiaries under any applicable bankruptcy or insolvency law; or
- (viii) if the trading of the Shares on the Stock Exchange is halted or suspended for more than ten Business Days or any event occurs which may lead to the withdrawal of listing status of the Company; or
- (ix) if it shall become unlawful for the Company to perform all or any of its obligations under the Convertible Bonds or the Convertible Bonds shall for any reason cease to be in full force or effect or be declared void or illegal by any court of competent jurisdiction; or
- (x) if there are any litigation, arbitration, prosecution or other legal proceedings outstanding against the Company or any of its subsidiaries, or any litigation, arbitration, prosecution or other legal proceedings are threatened against the Company or its subsidiaries, which may have a significant financial impact on the Group or may have a material adverse effect on the operations or financial position of the Group; or

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- (xi) any event of default occurs under the terms of other contractual obligations or indebtedness (including contingent indebtedness under guarantees or indemnities) of the Company or its subsidiaries, save and except (a) indebtedness or liabilities incurred in the Group's ordinary and usual course of business whose existence or quantum is genuinely contested by the Company or its subsidiaries, or (b) indebtedness which is nonrecourse or not recoverable by the alleged creditor from the general assets of the Company or its subsidiaries, or (c) the amount of alleged default is less than 5% of the net tangible assets of the Group; or
- (xii) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to above.

Transferability : The Convertible Bonds and the Conversion New Shares are freely transferable in whole amounts or multiples of units of principal amount of HK\$1,000,000 (or RMB863,000), provided that no Convertible Bonds may be transferred to connected persons of the Company without the prior written consent of the Company.

Redemption : Subject to the provisions of Events of Default, the Convertible Bonds may not be redeemed by the holder before the Maturity Date.

The Convertible Bonds may be redeemed in whole or part by the Company before the Maturity Date at the redemption price which is equivalent to the RMB principal amount of the redeemed. Convertible Bonds plus interest of 3% per annum calculated from the date of issue of the bond up to and including the date of redemption.

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Voting : Prior to conversion, the Convertible Bonds shall not confer on the holders the right to vote at any general meetings of the members of the Company.

Other terms : While any Convertible Bonds remain outstanding, no capital distribution shall be made by the Company.

The Convertible Bonds are denominated in dual currency at the fixed exchange rate of HK\$1.00 = RMB0.863 as agreed by the Subscriber and the Company on the date of signing of the CB Subscription Agreement. Due to the fixing of the agreed exchange rate, the number of 1,041,666,666 Conversion New Shares is pre-fixed and shall be unaffected by any exchange rate fluctuation between HK\$ and RMB. Where the Convertible Bonds are redeemed in cash pursuant to their terms without conversion, all full or partial repayment shall be made in RMB, the functional currency of the Company's accounts.

Listing : No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

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

Ranking of the Conversion : The Conversion New Shares will, when issued and
New Shares allotted, rank *pari passu* in all respects among themselves and with all other fully paid New Shares in issue.

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The initial Conversion Price of HK\$0.24 per Conversion New Share represents:

- (a) a premium of approximately 9.09% over the closing price of HK\$0.220 per New Share, based on the theoretical closing price of HK\$0.055 per Existing Share as quoted on the Stock Exchange on the date of signing of the CB Subscription Agreement (the “**Last Closing Price**”);
- (b) a premium of approximately 4.53% over the average closing price of HK\$0.2296 per New Share, based on the average theoretical closing price of HK\$0.0574 per Existing Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of signing of the CB Subscription Agreement (the “**Average Last Closing Price**”); and
- (c) a discount of approximately 6.25% to the closing price of HK\$0.256 per New Share, based on the theoretical closing price of HK\$0.064 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date.

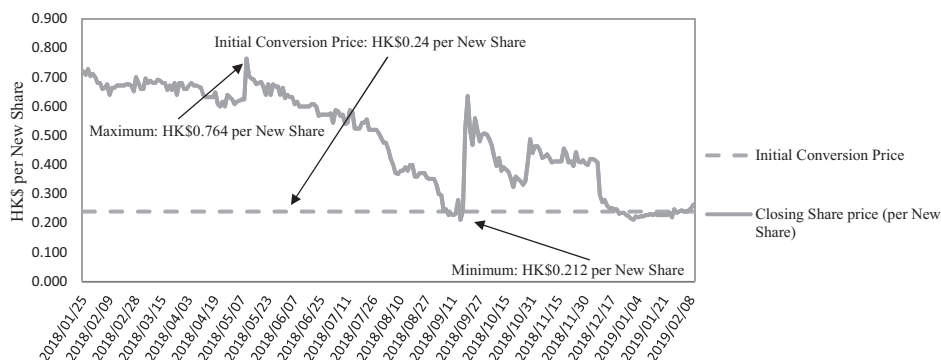
In assessing the fairness and reasonableness of the initial Conversion Price, we have taken into consideration (i) a review on daily closing price against the initial Conversion Price; (ii) the average trading volume of the Shares; and (iii) a comparison with other issue/subscription of convertible bonds/notes exercises in the market.

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(i) Comparison of the initial Conversion Price and historical performance of the Shares

We have reviewed the daily closing price of the New Shares, based on the closing price of the Existing Shares, as quoted on the Stock Exchange for the twelve-month period prior to the date of the CB Subscription Agreement, and up to and including the Latest Practicable Date (the “**Review Period**”).

Chart 1: Share price performance against the initial Conversion Price during the Review Period



Source: The official website of the Stock Exchange (<https://www.hkex.com.hk/>)

As illustrated in Chart 1, the closing price of the New Shares exhibited a generally declining trend during the Review Period, which ranged from the lowest closing price of approximately HK\$0.212 per New Share to the highest closing price of approximately HK\$0.764 per New Share, with an average of approximately HK\$0.485 per New Share. The initial Conversion Price of HK\$0.240 per New Share falls within the aforesaid range of the closing price and represents (i) a premium of approximately 13.21% to the lowest closing price per New Share; (ii) a discount of approximately 50.52% to the average closing price per New Share; and (iii) a discount of approximately 68.59% to the highest closing price per New Share during the Review Period.

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On 14 August 2018, the Company issued a profit warning announcement pursuant to which the Group expected to record a loss for the six months ended 30 June 2018. On 28 August 2018, the Company published the interim results announcement for the six months ended 30 June 2018. The closing prices had been decreasing and bottomed at HK\$0.212 per New Share on 14 September 2018, and soared to HK\$0.524 per New Share and HK\$0.636 per New Share on 18 September 2018 and 19 September 2018, respectively, and thereafter commenced a generally declining trend. We have discussed with the management of the Company regarding the possible reasons for the surge in Share prices and were advised that save for the aforesaid profit warning announcement and interim results announcement of the Group, they were not aware of any matters which might have an impact on the closing prices of the Shares. Therefore, such fluctuations in Share prices are believed to be attributed to the market reaction following the publication of such announcements. Moreover, we also noted that the closing price reached another climax at HK\$0.488 per New Share on 30 October 2018, and then returned to a downslope trend. We noted that no price-sensitive information had been published by the Company in or around the relevant period. Thereafter, the closing price was generally decreasing and dropped significantly to HK\$0.296 per New Share on 10 December 2018 and then oscillated within a narrow range and reached HK\$0.256 per New Share on the Latest Practicable Date.

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(ii) Trading volume analysis

Set out in Table 2 below are the average daily statistics of the trading volume of the Existing Shares during the Review Period.

Table 2: Average daily trading volume during the Review Period

		Average daily trading volumes over the issued Share capital of the Company	
	Number of trading days	Average daily trading volumes (Approximate number of Existing Shares) (Note 1)	(Approximate %) (Note 2)
2018			
January (from 25 January 2018)	5	1,460,800	0.06
February	18	310,228	0.01
March	21	365,048	0.02
April	19	333,842	0.01
May	21	3,126,667	0.14
June	20	324,711	0.01
July	21	430,619	0.02
August	23	311,424	0.01
September	19	28,892,895	1.26
October	21	5,462,476	0.24
November	22	1,080,455	0.05
December	19	4,015,316	0.18
2019			
January	22	4,118,773	0.18
February (up to and including the Latest Practicable Date)	8	2,251,500	0.10

Source: The official website of the Stock Exchange (<https://www.hkex.com.hk/>)

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Notes:

1. Computed by dividing the monthly trading volumes of the Existing Shares by the total number of trading days of the respective corresponding months.
2. Computed by dividing the average daily trading volumes of the Existing Shares by the total issued Share capital of the Company of 2,287,996,121 Existing Shares as at the Latest Practicable Date.

As illustrated in Table 2, trading liquidity of the Existing Shares was generally thin during the Review Period, with the average daily trading volumes of the Existing Shares having accounted for a range from approximately 0.01% to approximately 1.26% of the issued Share capital of the Company as at the Latest Practicable Date. The relatively low liquidity of the Existing Shares may, to some extent, imply lack of interest from potential investors to invest in the Existing Shares. Therefore, it may be difficult for the Company to pursue sizeable equity financing in the stock market without having to discount the subscription price.

(iii) Comparison with recent issues of convertible bonds/notes by other listed issuers

In assessing the fairness and reasonableness of the determination of the initial Conversion Price, we have initially conducted an analysis of comparable transactions (the “**Comparable Issues**”) which (i) were announced by companies listed on the Stock Exchange within a three-month period prior to the date of the CB Subscription Agreement, and up to and including the Latest Practicable Date (the “**Analysis Period**”), which in our view represents a sufficient period of time to reflect the prevailing market conditions for conducting such transaction when the Company entered into the CB Subscription Agreement; (ii) involved issues of convertible bond(s) or note(s) to independent third parties and/or connected persons under specific mandate announced by the listed companies in Hong Kong during the Analysis Period, excluding issuance for acquisitions; and (iii) involved the subscriber(s) or the ultimate beneficial owner of it acquiring a controlling stake (i.e. a shareholding interest of more than or equal to 30%) of the issuer assuming full conversion of the underlying convertible bonds/notes. However, only two Comparable Issues were identified based on the aforesaid selection criteria. In order to obtain a reasonable sample size, we have extended our research to include Comparable Issues which fall into our selection criteria (i) and (ii) above.

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On a best-effort basis, we have identified an exhaustive list of 10 Comparable Issues having met our extended selection criteria. It is worth noting that the underlying issuers of the Comparable Issues may or may not be identical to the Company in terms of principal activities, market capitalisations, profitability, operations and financial position, and that the circumstances leading to issuers of the Comparable Issues to issue convertible bond(s) or note(s) may differ from that of the Company under the CB Subscription. Nevertheless, our analysis is meant to be used as a general reference to transactions in Hong Kong which are comparable to the CB Subscription, and we consider it to be one of the appropriate bases for assessing the fairness and reasonableness of the principal terms of the Convertible Bonds. Details of the Comparable Issues are summarised in Table 3 below.

Table 3: A summary of the Comparable Issues

Company Name	Stock Code	Date of the announcement	Conversion Price (Approximate) HK\$	Premium/ (Discount) – Last (Approximate) % (Note 1)	Premium/ (Discount) – Five (Approximate) % (Note 2)	Interest rate %	Maturity period Month(s)
Sinco Pharmaceuticals Holdings Limited	6833	4/2/2019	0.488	22.00	30.13	6	18
TUS International Limited	872	11/1/2019	0.6084	(14.31)	(10.00)	0	72
China Ruifeng Renewable Energy Holdings Limited (Note 4)	527	31/12/2018	0.4850	(13.00)	(12.00)	8	24
Hospital Corporation of China Limited	3869	21/12/2018	20.00	13.12	12.17	6	60
Shougang Concord Century Holdings Limited	103	18/12/2018	0.33	83.33 (Note 3)	86.44 (Note 3)	4	36
Carnival Group International Holdings Limited	996	21/11/2018	0.20	57.48	54.08	8	24
Grand Field Group Holdings Limited (Note 4)	115	16/11/2018	0.1230	5.13	4.77	3	24
Evershine Group Holdings Limited	8022	13/11/2018	1.05	(18.00)	(17.00)	1	24
Moody Technology Holdings Limited	1400	12/11/2018	0.36	(20.00)	(18.20)	8	24
Huajun International Group Limited	377	26/10/2018	38.00	100.00 (Note 3)	90.46 (Note 3)	1.5	60
Maximum			38.00	57.48	54.08	8	72
Minimum			0.1230	(20.00)	(18.20)	0	24
Average			6.1644	4.05	5.49	4.55	36.6
The Company	1831		0.24	9.09	4.53	3	36

Source: The official website of the Stock Exchange (<https://www.hkex.com.hk/>)

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Notes:

1. The premium/discount has been calculated based on conversion price over/to the closing price per share on the last trading date prior to/on the date of the underlying subscription/placing agreement.
2. The premium/discount has been calculated based on conversion price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of the underlying subscription/placing agreement.
3. The corresponding figures of the Comparable Issues (the “**Outlier Comparable Issues**”) were excluded from the analysis because they, as compared with those of the other Comparable Issues, appear to be the outliers which may inappropriately skew the overall results.
4. The Comparable Issue involved the acquisition of a controlling stake by the subscriber or the ultimate beneficial owner of it which resulted in his/her/its shareholdings in the issuer to increase to over 30% assuming full conversion of the convertible bonds.

A. Interest Rate

As shown in Table 3 above, the interest rates of the Comparable Issues ranged from 0% to 8% per annum with an average of approximately 4.55% per annum. The interest rate of the CB Subscription of 3% per annum is therefore within the interest rate range of the Comparable Issues.

B. Maturity

As illustrated in Table 3, the terms to maturity of the Comparable Issues ranged from 24 months to 72 months with an average term to maturity of 36.6 months. The term of the CB Subscription of 36 months falls within the range of that of the Comparable Issues and is lower than the average term of the Comparable Issues.

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C. Conversion Price

As illustrated in Table 3 above, the underlying subscription/placing prices of 4 out of 8 Comparable Issues (excluding the Outlier Comparable Issues) were set at a premium to the respective closing share prices on the respective last trading dates prior to/on the respective dates of subscription/placing agreements. Further, the subscription/placing prices of the Comparable Issues represent a range from a discount of approximately 20.00% to a premium of approximately 57.48% to/over the respective closing share prices on the respective last trading dates prior to/on the respective dates of subscription/placing agreements (the “**Market Range 1**”), with an average premium of approximately 4.05%. Therefore, the premium of the initial Conversion Price to the Last Closing Price of 9.09% falls within the Market Range 1 and is higher than the average premium of the Comparable Issues.

On the other hand, the underlying subscription/placing prices of 4 out of 8 Comparable Issues (excluding the Outlier Comparable Issues) were set at a premium to the respective average closing share prices for the last five consecutive trading days prior to/up to and including the respective dates of subscription/placing agreements. Further, the subscription prices of the Comparable Issues represent a range from a discount of approximately 18.20% to a premium of approximately 54.08% to/over the respective average closing share prices for the last five consecutive trading days prior to/up to and including the respective dates of subscription/placing agreements (the “**Market Range 2**”), with the average of a premium of approximately 5.49%. Therefore, the premium of the initial Conversion Price to the Average Last Closing Price of 4.53% falls within the Market Range 2.

Taking into account the principal terms of the Comparable Issues, we consider that it is not uncommon for listed issuers in Hong Kong to issue convertible bond(s) or note(s) with an initial conversion price that is higher than the prevailing share price.

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D. Redemption

Pursuant to the terms of the Convertible Bonds, the Convertible Bonds may be redeemed in whole or part by the Company before the Maturity Date at the redemption price which is equivalent to the RMB principal amount of the redeemed Convertible Bonds plus interest of 3% per annum calculated from the date of issue of the bond up to and including the date of redemption. We consider the option of early redemption provides the Company with financial flexibility as to the timing of redemption having regard to its then liquidity position and working capital requirement which may potentially reduce interest expenses arising from the Convertible Bonds. Also, based on our review of the Comparable Issues, we noted that similar redemption rights, being the provision for early redemption of the outstanding convertible bonds/notes at the option of the issuer, were included in 7 out of the 10 Comparable Issue. Therefore, we consider that the redemption rights of the Convertible Bonds are common in the market and are fair and reasonable.

In light of the above, it is observed that the principal terms of the Convertible Bonds, including the initial Conversion Price, interest rate per annum, the term to maturity and the redemption right thereof, are in line with the prevailing market practice.

(iv) Conclusion

Based on the analysis above, considering (i) the overall downward trend of the closing prices of the New Shares during the Review Period; (ii) the generally thin liquidity of the Existing Shares during the Review Period; (iii) that it is not uncommon for the listed issuers in Hong Kong to set the initial conversion price at a premium to the prevailing share price; (iv) that each of the premium of the initial Conversion Price to the Last Closing Price and the Average Last Closing Price falls within the Market Range 1 and the Market Range 2, respectively; and (v) the potential benefits of the CB Subscription as discussed in the section above headed “2. Reasons for and benefits of the CB Subscription and use of proceeds”, we are of the view that the determination of the initial Conversion Price of HK\$0.24 per Conversion New Share is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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4. Possible dilution effect on the shareholding interests of Shareholders

As illustrated in the shareholding table under the section headed “SHAREHOLDING STRUCTURE OF THE COMPANY” in the Letter from the Board, the aggregate shareholding interest of the existing public Shareholders (being Shi Jianxiang, Happy Day Development Limited, Rich Land Limited, Chung Tai Limited, and other public Shareholders) would be diluted from approximately 66.16% to 32.86% immediately after full exercise of conversion rights attaching to the Convertible Bonds, assuming that the Capital Reorganisation is completed and that there is no other change in the issued share capital of the Company between the Latest Practicable Date and the full conversion of the Convertible Bonds by the Subscriber.

It is worth noting that assuming full conversion of the Convertible Bonds, the shareholding of the Subscriber and its associates would increase from 7.27% to 67.13%. However, pursuant to the terms of the Convertible Bonds, it is restricted that the Convertible Bonds shall not be converted to an extent which would either (i) reduce the public float of the Company to less than 25% (or the relevant percentage as prescribed by the Listing Rules) of the issued Shares; or (ii) result in any change of control (as defined in the Takeovers Code) of the Company or otherwise trigger any mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder of the Convertible Bonds who exercises the conversion rights (or its concert party) unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with. Therefore, given that a mandatory offer obligation under Rule 26 of the Takeovers Code may be triggered upon full conversion of the Convertible Bonds as illustrated, the Subscriber might not be able to exercise in full the conversion rights attaching to the Convertible Bonds given the Conversion Restrictions thereof.

Taking into account (i) the reasons for and benefits of the CB Subscription (as detailed in the above section headed “2. Reasons for and benefits of the CB Subscription and use of proceeds”); (ii) that the terms of the Convertible Bonds are fair and reasonable; and (iii) that the conversion of the Convertible Bonds will be subject to the Conversion Restrictions, we are of the view that the potential dilution impact to the existing public Shareholders as a result of the CB Subscription is acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Potential financial effects of the CB Subscription

Net assets

As set out in the Interim Report 2018, the net assets of the Group amounted to approximately RMB289.08 million as at 30 June 2018. As disclosed in the Letter from the Board, the net proceeds from the issuance of the Convertible Bonds (after deducting costs and expenses incidental to the CB Subscription) is estimated to be approximately HK\$245 million (equivalent to approximately RMB211.44 million). Upon the issue of the Convertible Bonds, the cash and cash equivalents of the Group will increase by the net proceeds of approximately HK\$245 million (equivalent to approximately RMB211.44 million). Based on the terms of the Convertible Bonds, the conversion price and the number of conversion shares are determined by the HK\$ denomination of the Convertible Bonds under the fixed exchange rate of HK\$1.00 = RMB0.863, but the cash redemption is based on RMB denomination of the bond principal. In other words, if the conversion right under the bonds are exercised by its holder(s), a fixed amount of cash under the functional currency of the bond would be exchanged into a fixed number of equity instruments. Therefore, if the fixed-for-fixed condition is satisfied by the Convertible Bonds, the Convertible Bonds will be accounted for at fair value upon the date of issuance and allocated into the liability portion and equity portion respectively, resulting in increases in the non-current liabilities and the total equity, respectively. Since the increase in cash and cash equivalents of the Group is expected to be greater than the liability component of the Convertible Bonds immediately following the issue of the Convertible Bonds, it is expected that the overall net assets of the Group will increase if the Convertible Bonds satisfy the fixed-for-fixed condition.

If the Convertible Bonds are converted into Shares at the Conversion Price on or prior to the Maturity Date, the outstanding liabilities under the Convertible Bonds will be credited to equity, and the net assets of the Group will increase.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Earnings

The Company intends to utilise the net proceeds of the CB Subscription of approximately HK\$245 million as to (i) approximately HK\$105 million for repayment of the principal and accrued interest on the Subscriber Loan Facility; (ii) approximately HK\$107.5 million for early redemption of the Promissory Notes and the accrued interest thereon; and (iii) approximately HK\$32.5 million for the Group's general expenses such as salaries, rental expenses and professional fees. Assuming that the CB Subscription is completed by May 2019 and taking into account the intended use of proceeds as aforementioned, the Company would be able to repay/redeem not only the Subscriber Loan Facility (which carries an interest rate of 5% per annum), but also the Promissory Notes (which carries an interest rate of 5.5% per annum). Accordingly, given that the annual interest rates of each of the Subscriber Loan Facility and the Promissory Notes are higher than the annual interest rate of the Convertible Bonds of 3% per annum, the Company could save interest expenses as a result of the repayment of the Subscriber Loan Facility and the early redemption of the Promissory Notes.

Liquidity and working capital

As set out in the Interim Report 2018, the cash and cash equivalents of the Group amounted to approximately RMB46.80 million as at 30 June 2018. Immediately following issue of the Convertible Bonds, the cash and cash equivalents of the Group will increase by the net proceeds from the CB Subscription of approximately HK\$245 million (RMB211.44 million). As such, the liquidity and working capital position of the Group will improve as a result of the CB Subscription.

In view of the above potential financial effects, in particular, the improvement on net assets on conversion, the savings on interest expense and the improvement on immediate liquidity, we consider that the overall financial effect on the Group as a result of the CB Subscription is positive. Shareholders should note that the above analyses are for illustrative purpose only and do not purport to represent the financial position of the Group as a result of the CB Subscription, which is subject to review before the Company's accounts are finalised.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

Taking into consideration of the principal factors and reasons as set out in this letter, we are of the view that, although the entering into of the CB Subscription Agreement was not in the ordinary and usual course of business of the Group, the terms of the CB Subscription Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the CB Subscription Agreement and the transactions contemplated thereunder (including the CB Subscription) and the grant of the Specific Mandate.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 17 years of experience in the corporate finance advisory profession.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(A) Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures of the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (b) which were recorded in the register (the "**Register**") maintained by the Company pursuant to Section 352 of the SFO, or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Capacity	Long positions in Existing Shares and underlying Shares	Approximate percentage of total issued shares (Note 2)
Mr. Chen	Interest in controlled corporation	4,326,028,707 (Note 1)	189.08%
	Beneficial owner	7,032,655	0.31%
Mr. Yu Shi Quan	Beneficial owner	892,196	0.04%

Notes:

- The Subscriber is a controlled corporation wholly-owned by Mr. Chen. The deemed interests of Mr. Chen disclosed herein include: (i) 7,032,655 Existing Shares held by Mr. Chen personally; (ii) 159,362,041 Existing Shares held by the Subscriber; and (iii) 1,041,666,666 Conversion New Shares (equivalent to 4,166,666,666 underlying Existing Shares prior to the Capital Reorganisation) falling to be issued on the full conversion of the Convertible Bonds subscribed by the Subscriber under the CB Subscription. The deemed interest of Mr. Chen's controlled corporation here duplicates with the deemed interest of the Subscriber as disclosed in Note 1 to the section headed "*(B) Substantial shareholders' interests and short positions in Shares, underlying Shares and debentures of the Company or its associated corporations*" below.
- The percentages are calculated based on the total number of 2,287,996,121 Existing Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executives of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations, which were notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

(B) Substantial shareholders' interests and short positions in Shares, underlying Shares and debentures of the Company or its associated corporations

So far as was known to the Directors and the chief executives of the Company, as at the Latest Practicable Date, persons other than a Director or chief executives of the Company who had interests or short positions in the Shares and underlying Shares of the Company which were disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, were as follows:

Name of substantial Shareholder	Capacity	Long positions in Existing Shares and underlying Shares	Approximate percentage of total issued shares (Note 5)
The Subscriber	Beneficial owner	4,326,028,707 (Note 1)	189.08%
Shi Jianxiang	Beneficial owner	186,850,000	8.17%
Chen Rong	Interest of controlled corporation	157,340,018 (Note 2)	6.88%
Happy Day Development Limited	Beneficial owner	157,340,018 (Note 2)	6.88%
Wang Fucai	Interest of controlled corporation	132,084,068 (Note 3)	5.77%
Rich Land Limited	Beneficial owner	132,084,068 (Note 3)	5.77%
Chen Rui	Interest of controlled corporation	130,807,645 (Note 4)	5.72%
Chung Tai Limited	Beneficial owner	130,807,645 (Note 4)	5.72%

Notes:

1. The Subscriber is a controlled corporation wholly-owned by Mr. Chen. The deemed interests of the Subscriber disclosed herein include: (i) 159,362,041 Existing Shares held by it; and (ii) 1,041,666,666 Conversion New Shares (equivalent to 4,166,666,666 underlying Existing Shares prior to the Capital Reorganisation) falling to be issued on the full conversion of the Convertible Bonds subscribed by the Subscriber under the CB Subscription. The deemed interest here duplicates with the deemed interest of Mr. Chen's controlled corporation as disclosed in Note 1 to the section headed "*(A) Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures of the Company or its associated corporations*" above.
2. Happy Day Development Limited is a controlled corporation wholly-owned by Chen Rong.
3. Rich Land Limited is a controlled corporation wholly-owned by Wang Fucai.
4. Chung Tai Limited is a controlled corporation wholly-owned by Chen Rui.
5. The percentages are calculated based on the total number of 2,287,996,121 Existing Shares as at the Latest Practicable Date.

Save as disclosed above, so far as was known to the Directors or the chief executives of the Company, as at the Latest Practicable Date, no persons other than a Director or chief executives of the Company had any interests or short positions in the Existing Shares or underlying Existing Shares which were disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

3. COMPETING INTERESTS

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquires, none of the Directors and their respective close associates were considered to have any interests in businesses which competed or were likely to compete, directly or indirectly, with the businesses of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter into any service contract with any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

Save for the Subscriber Loan Facility and the CB Subscription Agreement in which Mr. Chen is considered to be interested by virtue of his shareholding in the Subscriber, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017 (being the date to which the latest published audited financial statements of the Company were made up).

6. MATERIAL ADVERSE CHANGE

Save as disclosed in the profit warning announcement of the Company dated 11 January 2019, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

7. EXPERT AND CONSENT

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

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

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

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

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been acquired or disposed of or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017 (being the date to which the latest published audited accounts of the Company were made up).

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:00 a.m. to 5:00 p.m. on any weekday other than public holidays, from the date of this circular up to and including the date of the EGM at the principal place of business of the Company in Hong Kong at Room 2103, 21/F., “Port 33”, No. 33 Tseuk Luk Street, San Po Kong, Kowloon, Hong Kong:

- (a) the existing memorandum and articles of association of the Company, together with the New Memorandum of Continuance and Bye-laws to be adopted by the Company upon its de-registration in Cayman Islands and continuation in Bermuda;
- (b) the “Letter from the Board”, the text of which is set out on pages 7 to 24 of this circular;
- (c) the “Letter from the Independent Board Committee”, the text of which is set out on page 25 of this circular;
- (d) the “Letter from the Independent Financial Adviser”, the text of which is set out on pages 26 to 57 of this circular;
- (e) the written consent referred to in the paragraph headed “Expert and Consent” in this appendix;
- (f) the CB Subscription Agreement; and
- (g) this circular.

NOTICE OF THE EGM



SHIFANG HOLDING LIMITED

十方控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1831)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of ShiFang Holding Limited (the “**Company**”) will be held at Room 1, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 8 March 2019 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT:**

- (a) the entering into of the subscription agreement (the “**CB Subscription Agreement**”, a copy of which has been produced to this meeting marked “**A**” and signed by the chairman of this meeting for the purpose of identification) dated 24 January 2019 by TopBig International Development Limited (the “**Subscriber**”) as subscriber and the Company as issuer in relation to the subscription by the Subscriber of 3% per annum convertible bonds (the “**Convertible Bonds**”) in the principal amount of RMB215,750,000 (equivalent to HK\$250,000,000 at the fixed exchange rate of HK\$1.00 = RMB0.863 as agreed by the Company and the Subscriber) to be issued by the Company due on the third anniversary of the date of issue carrying a conversion right entitling their holders to subscribe for 1,041,666,666 New Shares (the “**Conversion New Shares**”) at the initial conversion price of HK\$0.24 (subject to adjustments in accordance with the terms and conditions of the Convertible Bonds) per ordinary share of par value of HK\$0.01 each (“**New Share**”) in the capital of the Company after the Capital Reorganisation (as defined in the Company’s announcement dated 18 January 2019), and all transactions contemplated thereunder and all other matters thereof and incidental thereto and in connection therewith, be and are hereby generally and unconditionally approved, confirmed and ratified in all respects;

NOTICE OF THE EGM

- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Listing Committee**”) granting the listing of, and permission to deal in the Conversion New Shares, the directors (the “**Directors**”) of the Company be and are hereby (i) authorised to issue the Convertible Bonds to the Subscriber; (ii) granted a specific mandate (the “**Specific Mandate**”) to allot and issue the Conversion New Shares on the terms and subject to the conditions of the Convertible Bonds, such Specific Mandate being in addition to and not prejudicing or revoking any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and
- (c) the Directors be and are hereby generally and unconditionally authorized to do all such acts or things and execute and deliver all such documents, instruments and agreements which they consider necessary, desirable or expedient to give effect to the transactions contemplated by the CB Subscription Agreement, the issue of the Convertible Bonds and the allotment and issue of the Conversion New Shares, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company.”

By order of the Board
ShiFang Holding Limited
Siuming Tsui
Executive Director and Chief Executive Officer

Hong Kong, 21 February 2019

Registered office:

P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Principal place of business in Hong Kong:

Room 2103, 21/F., “Port 33”
No. 33 Tseuk Luk Street
San Po Kong, Kowloon
Hong Kong

Notes:

1. A Shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote instead of him. A proxy need not be a Shareholder of the Company.
2. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.

NOTICE OF THE EGM

3. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours before the time fixed for holding of the EGM.
4. Completion and return of the form of proxy will not preclude members from attending and voting at the EGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, resolution to be proposed at the EGM convened by this notice will be voted on by way of poll.
6. As at the date of this notice, the executive Directors are Mr. Siuming Tsui (Chief Executive Officer), Mr. Chen Zhi and Mr. Yu Shi Quan; the non-executive Directors are Mr. Chen Wei Dong and Ms. Chen Min; and the independent non-executive Directors are Mr. Zhou Chang Ren, Mr. Wong Heung Ming, Henry and Mr. Cai Jian Quan.