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SHIFANG HOLDING LIMITED
十方控股有限公司

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

(Stock code: 1831)

(1) LOAN CAPITLISATION INVOLVING THE ISSUE OF CONVERTIBLE PREFERENCE SHARES CONSITUTING CONNECTED TRANSACTION; (2) DISCLOSEABLE TRANSACTION INVOLVING THE ISSUE OF CONVERTIBLE BONDS UNDER GENERAL MANDATE; AND (3) RESUMPTION OF TRADING

(1) LOAN CAPITALISATION

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

The CPS and the CPS Conversion Shares (upon conversion) will be issued under the CPS Specific Mandate to be obtained from the Independent Shareholders at the EGM. The Loan Capitalisation Long Stop Date is 31 October 2022, unless extended by mutual consent. Under the terms of the Loan Capitalisation Agreement, if the Loan Capitalisation proceeds to completion, the Creditor will waive all interest accruing on the Creditor's Loan between 31 July 2022 and the date of the completion of the Loan Capitalisation.

Based on the initial Conversion Ratio of one CPS into one Share and assuming there is no other change in the issued share capital of the Company, the aggregate of 383,636,331 CPS Conversion Shares which will be allotted and issued by the Company upon exercise in full of the conversion rights attaching to the 383,636,331 CPS represents: (a) approximately 40.66% of the existing issued share capital of the Company; (b) approximately 28.91% of the issued share capital of the Company as enlarged by the issue of 383,636,331 CPS Conversion Shares; and (c) approximately 26.29% of the issued share capital of the Company as enlarged by the issue of 383,636,331 CPS Conversion Shares and 132,010,713 CB Conversion Shares.

The subscription price of HK$0.57 per CPS represents: (i) a discount of approximately 18.57% to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of signing of the Loan Capitalisation Agreement; (ii) a premium of approximately 45.04% over the average closing price of HK$0.393 per Share as quoted on the Stock Exchange for the five trading days immediately preceding the date of signing of the Loan Capitalisation Agreement; (iii) a premium of approximately 341.86% over the average closing price of HK$0.129 per Share as quoted on the Stock Exchange for the 50 trading days immediately preceding the date of signing of the Loan Capitalisation Agreement; (iv) a premium of approximately 144.64% over the average closing price of HK$0.233 per Share as quoted on the Stock Exchange for the 250 trading days immediately preceding the date of signing of the Loan Capitalisation Agreement; and (v) a premium over the net liabilities of HK$0.147 per Share on the basis of the total deficit of RMB119,520,000 as at 31 December 2021 and 943,438,836 Shares currently in issue.

(2) DISCLOSEABLE TRANSACTION

The Board is pleased to announce that on 31 July 2022, the Company (as purchaser), the Vendor and the Target Company entered into the Acquisition Agreement, pursuant to which the Company conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the Acquired Interest for the Acquisition Consideration of HK$92,407,500, which shall be satisfied by the issue of the Convertible Bond under the General Mandate on the Acquisition Completion.

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

IMPLICATIONS UNDER THE LISTING RULES

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

The EGM will be held for the Shareholders to consider and, if thought fit, approve the ordinary resolution(s) in respect of, among other things, the Loan Capitalisation and the transactions contemplated thereunder, including the issue of the CPS and the allotment and issue of the CPS Conversion Shares (upon conversion) under the CPS Specific Mandate. In accordance with the Listing Rules, the Creditor and its associates (including Mr. Chen) will be required to abstain from voting on the resolution(s) in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder and the grant of the CPS Specific Mandate at the 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 regarding the terms of the Loan Capitalisation Agreement. An Independent Financial Adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Loan Capitalisation; (ii) a notice of EGM; and (iii) other information as required under the Listing Rules, is expected to be dispatched to the Shareholders on or before 30 September 2022.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on 1 August 2022, pending the publication of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 5 August 2022.

WARNING

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

(1) LOAN CAPITALISATION

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

Principal terms of the CPS

Issuer	:	The Company
Securities to be issued	:	383,636,331 CPS which are unlisted, non-voting and non-redeemable
Original Issue Price	:	HK$0.57 per CPS (the "**Original Issue Price**")
Fixed interest	:	The CPS carries a fixed interest of 3% per annum on the Original Issue Price. The fixed interest rate of CPS of 3% per annum was determined after arm's length negotiation between the Company and the Creditor.

Conversion Period	:	Indefinitely, at any time after the date of original issue of the CPS (the "**Conversion Period**")
Conversion Ratio	:	The number of Shares to which a CPS Holder shall be entitled upon conversion (provided always that no Conversion Restriction is triggered) shall be the number obtained by multiplying the Conversion Ratio then in effect by the number of CPS being converted. The conversion ratio (the "**Conversion Ratio**") of each CPS shall be initially on the basis of one (1) CPS into one (1) Share, subject to adjustments upon occurrence of the Adjustment Events as described below.
Conversion Rights	:	Holders of the CPS shall have the right to convert the CPS into CPS Conversion Shares at the Conversion Ratio then in effect at any time during the Conversion Period, provided always that the CPS Holder shall not convert the CPS to an extent which would either (a) reduce the public float of the Company to less than 25% (or the relevant percentage as prescribed by the 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 CPS Holder who exercises the conversion rights (or parties acting in concert with it) unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with (collectively, the "**Conversion Restrictions**").

CPS Conversion Shares	:	Based on the initial Conversion Ratio of one CPS into one Share and assuming there is no other change in the issued share capital of the Company, the aggregate of 383,636,331 CPS Conversion Shares which will be allotted and issued by the Company upon exercise in full of the conversion rights attaching to the 383,636,331 CPS represents: (a) approximately 40.66% of the existing issued share capital of the Company; (b) approximately 28.91% of the issued share capital of the Company as enlarged by the issue of 383,636,331 CPS Conversion Shares; and (c) approximately 26.29% of the issued share capital of the Company as enlarged by the issue of 383,636,331 CPS Conversion Shares and 132,010,713 CB Conversion Shares.
Subscription Price	:	The subscription price of HK$0.57 per CPS represents: (i) a discount of approximately 18.57% to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of signing of the Loan Capitalisation Agreement; (ii) a premium of approximately 45.04% over the average closing price of HK$0.393 per Share as quoted on the Stock Exchange for the five trading days immediately preceding the date of signing of the Loan Capitalisation Agreement; (iii) a premium of approximately 341.86% over the average closing price of HK$0.129 per Share as quoted on the Stock Exchange for the 50 trading days immediately preceding the date of signing of the Loan Capitalisation Agreement; (iv) a premium of approximately 144.64% over the average closing price of HK$0.233 per Share as quoted on the Stock Exchange for the 250 trading days immediately preceding the date of signing of the Loan Capitalisation Agreement; and (v) a premium over the net liabilities of HK$0.147 per Share on the basis of the total deficit of RMB119,520,000 as at 31 December 2021 and 943,438,836 Shares currently in issue.

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

(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 conditions of the CPS);

(iii) a capital distribution (as such term is defined in the conditions of the CPS) to Shareholders being made by the Company;

(iv) 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;

(v) an issue of Shares being made wholly for cash at a price less than 80% of the market price of the Shares;

(vi) 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;

(vii) 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

(viii) 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.

The adjustment mechanisms above are requested by the Creditor 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 (iv) to (viii) 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 in normal circumstances and market conditions, especially under general mandate permissible under the Listing Rules, by way of concession of the Creditor. The Company considers that the 80% benchmark is fair and reasonable and was reached following arms' length negotiation between the Company and the Creditor to strike a careful balance between the Creditor's legitimate interest and the Company's flexibility.

Redemption	:	The CPS are non-redeemable.
Ranking	:	The CPS shall rank *pari passu* to any and all current or future preferred equity securities of the Company. The CPS Conversion Shares will, when issued and allotted, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue.
Transferability	:	The CPS are freely transferable, provided that any transfer shall be submitted for approval by the Board to satisfy itself that no Conversion Restrictions will be triggered as a result of such transfer. If the Board approves the transfer, it may in its absolute discretion require the CPS to be converted into ordinary Shares simultaneously with the transfer.
Voting	:	The CPS carry no voting rights.

Listing	:	No application will be made for the listing of the CPS on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the CPS Conversion Shares that may be allotted and issued upon the exercise of the conversion rights attaching to the CPS.
Liquidation rights	:	Subject to all applicable laws, on a distribution of assets of the Company among its members on a return of capital on liquidation, dissolution or winding-up (whether voluntary or involuntary) of the Company or otherwise of Shares by the Company, the CPS shall be entitled, in priority to any holder of any other class of shares in the capital of the Company, to receive in respect of each CPS then held, an amount equal to the Original Issue Price of the CPS, subject to the availability of assets of the Company for such distribution. In addition, the CPS Holders shall be entitled to participate in distribution of surplus, *pari passu* with the holders of ordinary Shares, after the above mentioned return of capital.

Conditions Precedent to the Loan Capitalisation

Completion of the Loan Capitalisation is conditional upon:

(1) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the CPS Conversion Shares upon conversion of the CPS, and such approval not having been revoked or cancelled prior to completion of the Loan Capitalisation;

(2) the obtaining by the Company of the approval of the Independent Shareholders at the EGM in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder and the grant of the CPS Specific Mandate;

(3) the compliance of any other regulatory requirements whether under the Listing Rules or otherwise; and

(4) all necessary consents, authorisations, licences and approvals required to be obtained by the Company in relation to the Loan Capitalisation Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect.

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

Completion

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

CPS Specific Mandate

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

Information relating to the Creditor and Mr. Chen

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

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

Information regarding the Creditor's Loan

To assist the Company in overcoming its financial pressure due to the difficult business environment of printed media market, the Creditor has been providing financial assistance to the Company since 2018. As disclosed in the Company's announcements dated 24 January and 23 April 2019, the Company issued 3-years, 3% per annum convertible bonds in the principal amount of RMB215,750,000 to the Creditor, carrying the right to convert into Shares at the conversion price of HK$0.24 per Share (the "**2019 CB**"). The 2019 CB lapsed in April 2022, with outstanding balance owed to the Creditor of RMB187,309,725 on maturity. On 22 April 2022, the Creditor entered into the Creditor's Loan Agreement with the Company, under which the Creditor agreed to continue to provide the Creditor's Loan to the Company for a period of two years at the interest rate of 3% per annum, subject to typical event of default provisions. As the provision of the Creditor's Loan is not secured by the assets of the Company or its subsidiaries, the Board (including all independent non-executive Directors but excluding Mr. Chen Zhi and Ms. Chen Min who abstained from voting at the Board meeting due to their material interest in the Creditor's Loan) was of the view that the provision of the Creditor's Loan by the Creditor to the Company was conducted on normal commercial terms or better so far as the Company is concerned. Under Rule 14A.90 of the Listing Rules, the Creditor's Loan was fully exempt from all disclosure, annual review, circular and shareholders' approval requirements.

Reasons for and benefits of the Loan Capitalisation

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

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

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

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

In determining the structure of the Loan Capitalisation, the Company and the Creditor have taken into account the existing shareholding level of the Creditor and its associates. As at the date of this announcement, the Creditor and its beneficial owner (i.e. Mr. Chen) hold an aggregate of 227,198,674 Shares, representing approximately 24.08% of the total issued share capital of the Company. If the Company issued 383,636,331 Shares at the subscription price of HK$0.57 per Share for the settlement of the entire outstanding balance of the Creditor's Loan, the shareholding of the Creditor and its associates in the Company would increase from approximately 24.08% to approximately 46.03% and accordingly, would be required to make mandatory cash offer to acquire all the issued Shares pursuant to Rule 26.1 of the Takeovers Code. Given that the Creditor is not prepared to make general offer for all issued Shares as a result of the Loan Capitalisation, the Company and the Creditor resolved to settle the entire outstanding balance of the Creditor's Loan (including principal and interest) by way of issue of non-voting CPS to the Creditor, which also serve the purpose of reducing the current liabilities of the Group and therefore improving the financial position of the Group.

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

The issue price of the CPS was determined after arm's length negotiation between the Company and the Creditor with reference to the middle to long range (i.e. 50 days and 250 days) average closing prices of the Shares and the net liabilities position per Share. The Company noticed that the trading prices of the Shares for the past 3 years, there was only 1 trading day (i.e. 29 July 2022, being the last trading day immediately preceding the signing date of the Acquisition Agreement) on which the Shares had traded above HK$0.57. Having considered the fact that the issue price of the CPS of HK$0.57 per Share represents a substantial premium of approximately 45.04%, 341.86% and 144.64% over the 5 trading days, 50 trading days and 250 trading days average closing price of the Shares, and by comparing with the net liabilities of HK$0.147 per Share as at 31 December 2021, the Directors consider that the issue price of the CPS is fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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

In the light of the reasons explained above, the Directors (excluding the independent non-executive Directors who will defer expressing their views pending 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 Loan Capitalisation) are of the view that the terms of Loan Capitalisation (including the issue price and the terms of the CPS) are fair and reasonable, on normal commercial terms or better from the Company's perspective, and the entering into of the Loan Capitalisation Agreement is in the interests of the Company and its Shareholders as a whole.

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

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

Equity fund raising activities of the Company during the past twelve months

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

(2) DISCLOSEABLE TRANSACTION

The Board is pleased to announce that on 31 July 2022, the Company (as purchaser), the Vendor and the Target Company entered into the Acquisition Agreement, pursuant to which the Company conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the Acquired Interest for the Acquisition Consideration of HK$92,407,500, which shall be satisfied by the issue of the Convertible Bond under the General Mandate on the Acquisition Completion.

The principal terms of the Acquisition Agreement are as follows:

Date

31 July 2022

Parties

(i) The Company (as purchaser);

(ii) the Vendor; and

(iii) The Target Company.

According to the information provided by the Vendor, the ultimate beneficial owner and controller of 100% shareholding of the Target Company is the Vendor as at the date of signing of the Acquisition Agreement. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor is an Independent Third Party.

Subject of the Acquisition

Pursuant to the Acquisition Agreement, the Company conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the Acquired Interest for the Acquisition Consideration of HK$92,407,500. The Acquired Interest represents the entire issued share capital of the Target Company, together with all the shareholders' loans owed by the Target Company to the Vendor or its affiliates on the Acquisition Completion. According to the information provided by the Vendor, the Target Company has not recorded any shareholder's loans since its date of incorporation.

As further explained in the section headed "VIE Arrangements and the Structured Contracts" of this announcement, the PRC Operating Company is licensed to engage in the operation of television programme production, which fall under a strictly restricted foreign-invested category. On 11 July 2022, the Target Company entered into the ETAs with the relevant equity holders, with the view to establishing the Target Wfoe and identifying and nominating the Target Opco to enter into structured contracts with each others, such that the Target Opco will acquire the ETA Interests and confer their economic interests to the Target Wfoe (and therefore indirectly to the Target Company) through VIE arrangements. The ETA Interests comprise: (a) the ETA-A Interest, namely, the 35% equity interest in Target Holdco A which is legally registered in the name of Mr. Wang to hold on trust for the Beneficiaries; (b) the ETA-B Interest, namely, the 100% equity interest in Target Holdco B which is legally and beneficially owned by Mr. Zhang and Mr. Chen Bin; and (c) the ETA-C Interest, namely, the 3% equity interest in the PRC Operating Company which is legally and beneficially owned by Target Holdco C. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, (i) Target Holdco A, B and C respectively owns 77%, 20% and 3% equity interests of the PRC Operating Company; and (ii) each of Mr. Wang, Mr. Zhang, Mr. Chen Bin, Ms. Li Wen (the owner of 1% equity interest in Target Holdco A), the Beneficiaries, Target Holdco C and its ultimate beneficial owners is an Independent Third Party.

The Acquired Interest effectively confers to the Group 49.95% economic benefit, on a look-through basis, in the financial performance of the PRC Operating Company. By acquiring the Acquired Interest, the Company is effectively acquiring the contractual right under the ETAs such that the Company can make use of its pre-existing VIE structure to achieve the same result as originally contemplated under the ETAs. Therefore, following the Acquisition, instead of having to set up new VIE arrangement between the Target Wfoe and the Target Opco, the Company (as purchaser) can simply nominate Listco Opco to acquire the ETA Interests directly from Mr. Wang, Mr. Zhang, Mr. Chen Bin and the Target Holdco C. Under the pre-existing VIE structure of the Company, Listco Opco is a PRC domestic company not legally owned by the Group but by the Listco Opco Shareholders who are PRC nationals. Through the pre-existing Structured Contracts, the entire economic benefits and management control of Listco Opco are conferred to Listco Wfoe, thereby enabling the Group to consolidate the financial results of the Listco Opco. Through the said nomination, the Company can effectively capture the economic benefit of the ETA Interests. The completion of the ETAs will be signified by the registration of official equity holding records in respect of the ETA Interests in favour of the nominated entity(ies) of the Target Company. It is currently expected that following completion of both the ETAs and the Acquisition Agreement, the financial results of Target Holdco B will be consolidated by the Group, while the interests in Target Holdco A and the PRC Operating Company will be recorded as interests in associated companies in the Company's consolidated financial statements.

It is a condition of the Acquisition Agreement that the Vendor will provide funding to the Target Company to enable it (or its nominated party) to complete the ETAs and to pay up all unpaid capital (if any) of the Target Holdcos and the PRC Operating Company, and that any shareholders' loan and/or inter-company accounts owed by the Target Company, the Target Holdcos or the PRC Operating Company to the Vendor, its affiliates or external parties as a result of the said funding utilization shall be assigned in favour of the Company as part of the Acquisition. Further, the Vendor warrants and confirms that the entering into and the completion of the ETAs and the Acquisition Agreement were unanimously consented to by the Target Holdcos, all their equity holders and the PRC Operating Company.

Further details of the Target Company and the Target Onshore Group are set out in the section headed "Information on the Target Company and the Target Onshore Group" in this announcement. The financial information of the Target Company and the Target Onshore Group is set out in the section headed "Financial Information of the Target Company and the Target Onshore Group" in this announcement.

The Acquisition Consideration

The Acquisition Consideration of HK$92,407,500 shall be satisfied by the issue of the Convertible Bond under the General Mandate. The detailed terms of the Convertible Bond is set out in the section headed "Convertible Bond" in this announcement.

The payment of consideration by way of issuance of Convertible Bond is fair and reasonable and in the best interest of the Company because it can reduce the immediate pressure on the Group's cash requirement. In addition, the terms of the Convertible Bond and the mechanism of the Profit Guarantees are designed to ensure that there will be no cash redemption by the bond-holder, as the entire principal amount of each tranche of the Convertible Bond is either cancelled upon the non-fulfillment of the Profit Guarantees, or converted before release to the bond-holder upon the fulfillment of the Profit Guarantees.

The Acquisition Consideration was arrived at after arm's length negotiations between the Company and the Vendor, taking into account the terms of the Profit Guarantees and the promising prospect of the short video market in the PRC as discussed in the section headed "Reasons for and benefits of the Acquisition" below.

In assessing the fairness and reasonableness of the Acquisition Consideration, the Company has carried out an analysis on the price-to-earnings ratio ("**P/E ratio**") of comparable listed companies in Hong Kong which met the following selection criteria, namely: (i) the shares of which are listed on the Stock Exchange; and (ii) the principal business of which are similar with the short video business of the PRC Operating Company. However, due to the unique nature of the principal activities of the PRC Operating Company, the Company could only identify 2 comparable companies on its best effort basis with details below:

	Company name	Principal activities	Market capitalization as at the last trading day immediately prior to the date of the Acquisition Agreement *(HK$'000)*	Profit attributable to equity holders in the latest full financial year prior to the date of the Acquisition Agreement *(HK$'000)*	P/E ratio *(times)*
1.	Uju Holding Limited (stock code: 1948)	Provision of one-stop cross media online marketing solutions, in particular online short video marketing solutions, through its media partners for its advertiser customers to market their products and services in the PRC	2,604,000	295,757	8.8
2.	Netjoy Holdings Limited (stock code: 2131)	Provision of one-stop short video marketing solutions services, SaaS service and other business to customers in the PRC	1,042,312	136,510	7.6

Based on the Guaranteed Profits (as defined below) in respect of the financial performance of the PRC Operating Company for the year ending 31 December 2022 of a total RMB80,000,000, the forward P/E ratio of the PRC Operating Company is approximately 2.0 times (which was calculated based on (i) the projected consideration of the entire PRC Operating Company based on the Acquisition Consideration (i.e. HK$92,407,500/49.95% = HK$185,000,000); and (ii) the Guaranteed Profits of the PRC Operating Company for the year ending 31 December 2022 of a total of RMB80,000,000 (equivalent to approximately HK$93,023,256)).

In view of the fact that (i) the forward P/E ratio of the PRC Operating Company of approximately 2.0 times is much lower than that of the comparable companies; (ii) the Profit Guarantees mechanism with Compensation Amount (as defined below) provided by the Vendor in favour of the Company serves an additional protection to the Group under the Acquisition, the Company is of the view that the Acquisition Consideration is fair and reasonable.

As disclosed in the section headed "The Acquisition Conditions" below in this announcement, the Acquisition Condition (iii) on the obtaining of Listing Approval in respect of the CB Conversion Shares may be waived by the Company if it is the last condition to be satisfied and the Acquisition Long Stop Date is not extended by the Vendor. The Acquisition Agreement provides that under such circumstances, the Company may choose to proceed to the Acquisition Completion and satisfy the Acquisition Consideration by the issuance of the Promissory Note on the Acquisition Completion.

The Promissory Note matures on the third anniversary of the date of issue, carries interest at 6% per annum (payable in arrears in one lump sum at maturity or redemption), is not secured by any assets of the Group, divisible subject to minimum denomination of HK$1 million and freely transferable, provided that any transfer shall be submitted for approval by the Board to satisfy itself that all transferee(s) are Independent Third Parties. All consent on transfer is given by the Company on the condition that the transferee is deemed to have agreed to be bound by all the original terms of the Promissory Note, including the arrangements as regards escrow, compensation and release pending the determination of the Profit Guarantee (as detailed in the paragraph headed "Profit Guarantees" below). The note-holders may not demand the Company to make repayment of the Promissory Note earlier than maturity.

The terms of the Promissory Note were determined after arm's length negotiation between the Company and the Vendor with reference to the prevailing market conditions. In determining the interest rate of the Promissory Note, the Directors have reviewed all issue of promissory notes with the term to maturity of not less than one year by companies listed on the Stock Exchange for satisfying the consideration of acquisition during the 3-month period immediately prior to the date of the Acquisition Agreement of 31 July 2022 and identified 4 transactions which met the said criteria (the "**PN Comparable Issues**"). The interest rates of the PN Comparable Issues ranged from 4.5% to 12.5%, with a median of 7% and an average of 7.75%. The interest rate of the Promissory Note of 6% per annum falls within the range of interest rates of the PN Comparable Issues and is comparable to the average of those of the PN Comparable Issues. Accordingly, the Directors consider that the terms of the Promissory Note are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Profit Guarantees

As explained above, the Acquired Interest effectively confers to the Group 49.95% economic benefit, on a look-through basis, in the financial performance of the PRC Operating Company. Under the terms of the Acquisition Agreement, the Vendor provides the following performance guarantee in respect of the financial performance of the PRC Operating Company, namely:

(1) that the net profits after tax (the "**Actual Profit**"), excluding any one-off income not generated in ordinary course of business (the "**One-off Income**"), of the PRC Operating Company shall be no less than RMB40 million (the "**First Guaranteed Profit**") for the six months ended 30 June 2022 ("**1H2022**");

(2) that the Actual Profit excluding One-off Income of the PRC Operating Company shall be no less than RMB20 million (the "**Second Guaranteed Profit**") for the three months ending 30 September 2022 ("**2022Q3**"); and

(3) that the Actual Profit excluding One-off Income of the PRC Operating Company shall be no less than RMB20 million (the "**Third Guaranteed Profit**", which together with the First Guaranteed Profit and the Second Guaranteed Profit are collectively referred to as the "**Guaranteed Profits**") for the three months ending 31 December 2022 ("**2022Q4**").

The determination of the Actual Profit shall be based on the audited accounts of the PRC Operating Company to be provided by the Vendor as audited by a PRC audit firm which is acceptable to the Company, subject to the Company's review, acceptance and adjustments as may be necessary including without limitation those in relation to difference in accounting standards and/or the determination of One-off Income. If the Actual Profit of the PRC Operating Company for any of the above periods turns out to be less than the corresponding Guaranteed Profit, the Vendor shall compensate the difference by surrendering the proportionate principal amount of the Convertible Bond or Promissory Note (as the case may be) (the "**Compensation Amount**") based on the formula below:

$$\text{Compensation Amount} = \frac{(\text{Guaranteed Profit} - \text{Actual Profit})}{\text{Guaranteed Profit}} \times \text{Principal amount of the Convertible Bond or Promissory Note}$$

The Convertible Bond (or the Promissory Note) is deposited by way of escrow with the Company pending the determination of the extent of satisfaction of the Guaranteed Profits. The balance (if any) of the Convertible Bond (or the Promissory Note) after deducting the Compensation Amount (the "**Released Amount**") will be automatically converted by the Company (in the case of the Convertible Bond) and released to the Vendor (or his nominated entity(ies) as he may direct) within 15 days after the final determination of the Actual Profit as agreed by the Company and the Vendor. For the avoidance of doubt, if the PRC Operating Company recorded loss after tax and non-controlling interest in 1H2022, 2022Q3 or 2022Q4, the Actual Profit shall be treated as zero when calculating the Compensation Amount and Released Amount using the above formula.

Further announcement(s) will be made by the Company as and when appropriate, if the Guaranteed Profits is fulfilled or not.

The Acquisition Conditions

Completion of the Acquisition Agreement is conditional upon, among other things, all of the following conditions precedent being fulfilled or waived:

(i) the completion of the ETAs on or before the Acquisition Completion;

(ii) the Company having obtained a legal opinion from qualified PRC legal advisers, in form and substance satisfactory to the Company in its absolute discretion, to confirm, among other things, the due incorporation, valid and continued existence of the members of the Target Onshore Group, the approvals, consents, licences and/or permissions required by the Target Onshore Group to conduct their business operations, the full force and effect of the material contracts in relation to the Target Onshore Group including particularly the ETAs, and the necessity, legality and enforceability of the using of VIE structure;

(iii) the Listing Committee of the Stock Exchange having granted the approval for the listing of and permission to deal in the CB Conversion Shares to be issued upon conversion of the Convertible Bonds;

(iv) the Company having completed its due diligence over the business, assets, financial results and corporate structure of the Target Company and the Target Onshore Group, and being satisfied with the results of the due diligence in its absolute discretion;

(v) the obtaining of all approvals, completion of all filings, waiting periods having expired or terminated and all applicable statutory and legal obligations having been complied with, in each case as may be necessary and expedient in connection with the entering into and the complementation of the Acquisition Agreement;

(vi) no events having occurred which may result in any material adverse effect on the financial performance, business or assets, operating results or business prospects the Target Onshore Group between the date of the Acquisition Agreement and the Acquisition Completion;

(vii) all warranties given by the Vendor being true, accurate and not misleading at all times between the date of the Acquisition Agreement and the Acquisition Completion; and

(viii) (if applicable) the obtaining of the required approvals, confirmations, waivers or consents from all third parties or regulatory authorities in respect of the Acquisition Agreement and the transactions contemplated thereunder.

Save for and except conditions (i) and (ii) above which cannot be waived by any party in any event, the other conditions can be waived at the absolute discretion of the Company. Condition (iii) may be waived by the Company if it is the last condition to be satisfied and the Acquisition Long Stop Date is not extended by the Vendor. As at the date of this announcement, none of the Acquisition Conditions set out above has been satisfied.

The Acquisition Long Stop Date for the fulfillment (or waiver, where applicable) of the Conditions is 15 September 2022 (or such later date as the parties may agree in writing). If any of the Acquisition Conditions are not fulfilled or waived on or before the Acquisition Long Stop Date (unless the Acquisition Long Stop Date is extended by mutual consent), the Acquisition Agreement shall terminate and no party shall have any claim in relation to the Acquisition Agreement, without prejudice to the rights of any party in respect of antecedent breaches.

The Acquisition Completion

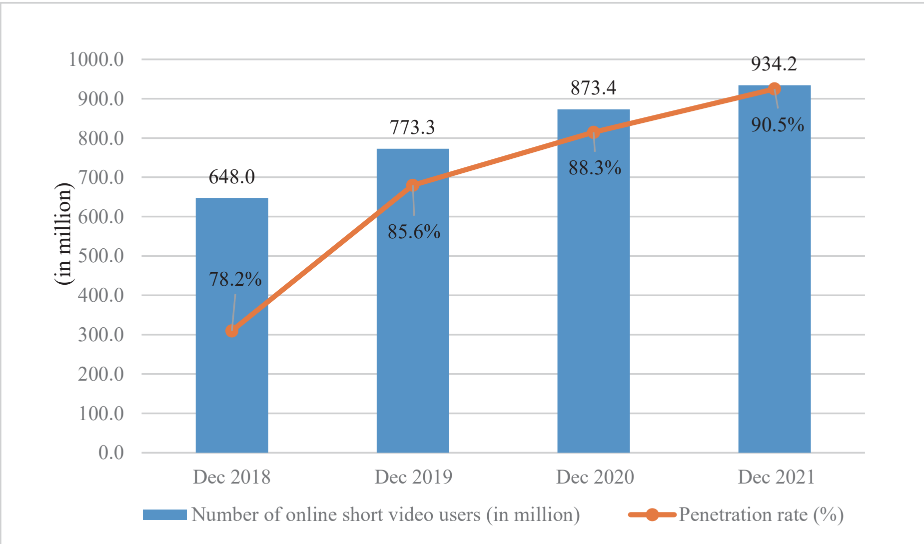
The Acquisition Completion shall take place within three Business Days following the satisfaction or waiver of the last Acquisition Condition, or such other time as agreed by the parties.

Reasons for and benefits of the Acquisition

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 media and film media businesses in PRC and diversifying into tourism and integrated developments.

The management of the Group noted that motivated by the development and maturity of the mobile internet, the upgrade of 4G technology and the popularization of smartphones, short videos (normally referred to videos in length of not more than 10 minutes) have been getting viral in different online platforms. The scale of short video users in the PRC has been expanding year-by-year, and the penetration rate was increasing at a steady pace. According to the 49th Statistical Report on Internet Development in the PRC*（第49次中國互聯網絡發展狀況統計報告）(the "**Report on PRC Internet Development**") published by China Internet Network Information Center, the domestic short video users have reached 934 million, representing a year-on-year increase of approximately 7.0% as compared to that of approximately 873.4 million as at December 2020 and accounting for approximately 90.5% of the total internet users. The following chart depicts the number of online short video users in the PRC from 2018 to 2021:

Chart 1: Number of online short video users in the PRC

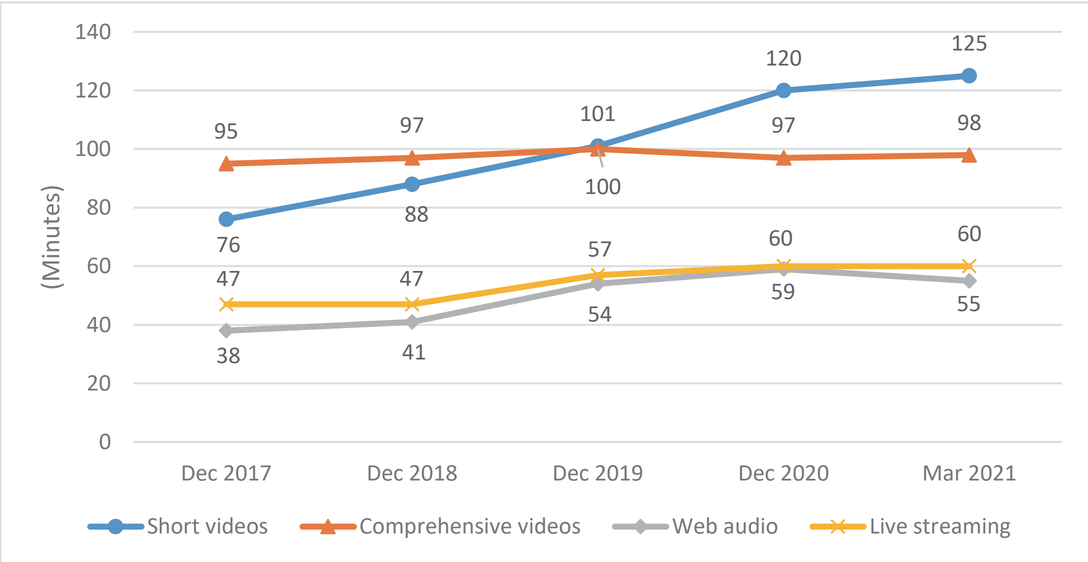


Source: The Report on PRC Internet Development

Note: Penetration rate represents the percentage of the internet users watching online short videos.

The fragmented and decentralized communication characteristics of short videos meet the diverse needs of users for content entertainment and social interaction. Nowadays, short video is regarded as one of the most popular online audio-visual applications in the PRC. The chart below depicts the average daily usage time per capita in the PRC for different online audio-visual applications from December 2017 to March 2021:

Chart 2: Average daily usage time per capita for different online audio-visual applications



Source: *The 2021 PRC Online Audio-visual Development Research Report* (2021年中國網絡視聽發展研究報告) (the "**2021 PRC Online Audio-visual Report**") published by China Netcasting Services Association (中國網絡視聽節目服務協會)*

As illustrated in Chart 2 above, as at March 2022, short video is the online audio-visual application with the longest daily usage time per capita, followed by comprehensive video, live streaming and web audio. According to the 2021 PRC Online Audio-visual Report, the average daily usage time of short videos per capita reached 125 minutes, accounting for about one third of the average usage time of mobile internet users.

Throughout the past few years, short videos have successfully accumulated huge internet user traffic. Although the growth trend of short video users tends to ease, the efficiency of monetization is gradually improving. Short videos are mainly monetized through live streaming, advertisements and e-commerce. With the traffic advantages, diversified marketing and excellent algorithm efficiency, advertising revenue from short videos continue to grow. According to the research data published by QuestMobile, a professional business data platform specializing in the PRC mobile internet market, the growth rate of short video advertising revenue reached 31.5% in 2021, far ahead of other internet advertising media. The management of the Company believes that short video has become a common form of entertainment and advertisement and will remain as the dominant segment of online audio-visual industry in the PRC with a promising prospect.

As a short video industry player, the PRC Operating Company operates a video content creation platform namely Xiaozhu Youban (小豬優版), which provides copyright commercial operation service, content promotion service, content distribution service with an aim to providing content creators with a simple, fast, efficient and high-value content open platform for their creation and distribution of short videos. The Directors consider that the Acquisition represents a good opportunity for the Group to tap into the fast-growing and promising short video advertising industry in the PRC, and in turn, broaden the income stream of the Group. Through the cooperation with the Target Onshore Group, the Company can leverage on the valuable multimedia content library of the target business with the view to revitalizing the Company's online business.

After considering the above, the Directors (including the independent non-executive Directors) consider that the entering into of the Acquisition Agreement and the transactions contemplated thereunder (including the terms and conditions of the Acquisition Agreement, particularly the Acquisition Consideration, the payment terms, the Profit Guarantees, and the terms of the Convertible Bond and the Promissory Note) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. No Director regarded himself/herself to have a material interest in Acquisition Agreement which requires him/her to disclose his/her interest and/or to abstain from voting on the Board level regarding the entering into of the Acquisition Agreement.

During the course of the negotiation between the Company and the Vendor, it became necessary for the Company to get in contact with other ultimate shareholders of the PRC Operating Company due to the need to obtain their consent and waiver of right of first refusal. As the Company regard the PRC Operating Company as an attractive investment opportunity, parallel discussions were entered into with other ultimate shareholders of the PRC Operating Company with the view to explore the possibility of also buying out the remaining 50.05% look-through effective interest therein. In the final stage of negotiation, after obtaining the financial information of the Target Onshore Group, the Company noticed that an acquisition of the 49.95% non-controlling interest alone would be classified as a notifiable transaction for the Company, but an acquisition of 50.05% to 100% controlling interest would be classified as a major acquisition for the Company under Chapter 14 of the Listing Rules. After conducting studies on the market and the Target Onshore Group, the Company is of the view that while both acquisition models would be able to benefit the Group, each model would have its own pros and cons. By acquiring a non-controlling interest, the Company foresees that it should be able to benefit from financial return of the investment and a modest level of business synergy through cooperation with the Target Onshore Group's business. In addition, the transaction has a shorter timetable and less vulnerable to transaction risks, which is important to the Company due to the rapid-moving nature of the target business. On the other hand, the acquisition of a controlling interest would subject the transaction to a longer timetable and more transaction risks. However, the Company would not only be able to capture a larger financial return but also enjoy a higher level of business and management integration and synergy.

In an attempt to seize an opportunity for the benefit of the Company but to strike a balance between the pros and cons between acquiring controlling and non-controlling interests, the Company has at one stage also entered into another acquisition agreement (“**Another Acquisition Agreement**”) with another vendor (“**Another Vendor**”) to acquire the right to nominate the Listco Opco to become the transferee of the remaining 50.05% look-through effective interest in the PRC Operating Company, but at a consideration which is higher than the valuation under the Acquisition. The parties’ original intention was that this Another Acquisition Agreement would run on a standalone timetable on the basis of a major transaction, without affecting the parties’ ability to achieve a quick done deal on the Acquisition as a discloseable transaction. However, upon further consultation and after seeking advice, the Company became aware of the possibility of aggregation between this Another Acquisition Agreement with the Acquisition, such that the entire 100% acquisition would be subject to the major transaction timetable. Upon notifying the Vendor and Another Vendor on the aggregation of transactions, the Company was notified that it was a fundamental basis for forming a contract on Another Acquisition Agreement that the timetable of the Acquisition should not be delayed, due to the best interest of the business development of the PRC Operating Company rather than due to the personal benefits of the Vendor or the Another Vendor. On 1 August 2022, the Company received a notice from Another Vendor notifying us that the fundamental basis for forming a contract on Another Acquisition Agreement no longer existed, and that the parties should be entitled to treat Another Acquisition Agreement as if it has never been entered into, thereby releasing both parties from any obligations against each others. To maintain a good business relationship with business counterparties, the Company signed an acknowledgement on this notice to signify a full and final settlement of this matter.

CONVERTIBLE BOND

The principal terms of the Convertible Bond are summarized below:

Issuer	:	The Company
Principal Amount	:	HK$92,407,500 in aggregate, divided into three equal tranches of principal amount of HK$30,802,500, each corresponding to the three Profit Guarantees as described in the section headed "Profit Guarantees"
Maturity	:	To coincide with the settlement deadline of the Compensation Amount and the Released Amount in respect of the three tranches of Convertible Bond, i.e. 30 September 2022 (in respect of the first tranche), 30 November 2022 (in respect of the second tranche) and 28 February 2023 (in respect of the third tranche), provided that the settlement date shall be at least 15 days after the date of the Acquisition Completion
Interest Rate	:	Nil, zero-coupon
CB Conversion Price	:	HK$0.70 per CB Conversion Share The CB Conversion Price of HK$0.70: (a) is equivalent to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the last trading day immediately prior to the date of signing of the Acquisition Agreement (i.e. 29 July 2022); and (b) represents a premium of approximately 78.12% over the average closing price of HK$0.393 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of signing of the Acquisition Agreement.

		The CB Conversion Price was determined after arm's length negotiations between the Company and the Vendor, with reference to the recent trading price of the Shares.
CB Conversion Shares	:	Based on the CB Conversion Price of HK$0.70, a maximum number of 132,010,713 CB Conversion Shares will be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bond. The maximum number of 132,010,713 CB Conversion Shares represents: (i) approximately 13.99% of the issued share capital of the Company as at the date of this announcement; (ii) approximately 12.27% of the issued share capital of the Company as enlarged by the allotment and issue of the maximum 132,010,713 CB Conversion Shares; and (iii) approximately 9.05% of the issued share capital of the Company as enlarged by the allotment and issue of the maximum 132,010,713 CB Conversion Shares and 383,636,331 CPS Conversion Shares.
Conversion Rights	:	Subject to the determination of fulfillment of the Guaranteed Profits in respect of the relevant period, the Released Amount shall be automatically converted into Shares at 4:00 p.m. of the Maturity Date in respect of the relevant tranche of the Convertible Bond.
Conversion restrictions	:	The bondholder shall not exercise the conversion right of the Convertible Bond 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 bondholder who exercises the conversion rights (or parties acting in concert with it) unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with.

Adjustments Events	:	The CB Conversion Price and the number of CB Conversion Shares will be subject to adjustments upon the occurrence of the following event, namely, an alteration of the nominal amount of the Shares by reason of share consolidation or sub-division.
Transferability	:	The Convertible Bond or any part(s) thereof may not be assigned or transferred or pledged as security prior to the Maturity Date in respect of the relevant tranche of Convertible Bond.
Voting	:	Bondholders will not be entitled to attend or vote at any Shareholders' meetings of the Company.
Listing	:	No application will be made by the Company for the listing or permission to deal in the Convertible Bond on the Stock Exchange. An application will be made by the Company to the Stock Exchange for the listing of and permission to deal in the CB Conversion Shares.
Ranking of the CB Conversion Shares	:	Shares issued upon conversion will rank pari passu in all respects among themselves and with other existing Shares outstanding at the date of issue of the CB Conversion Shares and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of their issue.

The terms of the Convertible Bond are determined following arm's length negotiation between the Company and the Vendor. The Directors are of the view that the terms of the Convertible Bond are fair and reasonable and in the interest of the Company and the Shareholders as a whole because it is interest-free and only mature upon the fulfillment of the Guaranteed Profits. In addition, in determining the CB Conversion Price, the Company has taken into account the prevailing market price of the Share, which represents a significant premium of approximately 78.12% over the average closing price per Share as quoted on the Stock Exchange for the five consecutive trading dates immediately prior to the date of signing of the Acquisition Agreement.

GENERAL MANDATE

The CB Conversion Shares will be allotted and issued under the General Mandate granted to the Directors at the AGM. The General Mandate entitles the Directors to allot, issue and deal with up to 188,687,767 Shares, being 20% of the total issued share capital of the Company as at the date of the AGM. Since the date of the AGM and up to and including the date of this announcement, no Shares have been allotted and issued under the General Mandate. Accordingly, the General Mandate is sufficient for the allotment and issue of 132,010,713 CB Conversion Shares and the allotment and issue of the CB Conversion Shares is not subject to approval of the Shareholders. As the terms of the Convertible Bond do not contemplate any adjustments to the number of CB Conversion Shares Convertible Bond save and except for share consolidation or sub-division, there is no chance for the number of CB Conversion Shares to exceed the General Mandate. The CB Conversion Shares, when allotted and issued, will rank pari passu in all respects with all the Shares then in issue.

INFORMATION ON THE TARGET COMPANY AND THE TARGET ONSHORE GROUP

The Target Company

The Target Company is a company incorporated in the British Virgin Islands with limited liability. According to the information provided by the Vendor, (a) the ultimate beneficial owner and controller of 100% shareholding of the Target Company is the Vendor as at the date of signing of the Acquisition Agreement; and (b) the Target Company is an investment holding company with no business operations or undertakings save for its contractual right to nominate a domestic entity to take up the ETA Interests under the Equity Transfer Agreements.

Equity Transfer Agreements

On 11 July 2022, the Target Company entered into three ETAs with the relevant equity holders, with the view to establishing the Target Wfoe and identifying and nominating the Target Opco to enter into structured contracts with each others, such that the Target Opco will acquire the ETA Interests (i.e. 35% equity interest in Target Holdco A originally registered in the name of Mr. Wang (holding on trust for the Beneficiaries), 100% equity interest in Target Holdco B originally owned by Mr. Zhang and Mr. Chen Bin, and 3% equity interest in the PRC Operating Company originally owned by Target Holdco C) and confer their economic interests to the Target Wfoe through VIE arrangements.

Target Holdcos

Target Holdco A is a limited liability company established in the PRC with a registered capital of RMB3.0 million which has been fully paid up. Its scope of business operations includes: radio and television program production; internet information services; technology development, technology consulting, technical services, technology transfer; business management consulting; economic and trade consulting; organization of cultural and artistic exchange activities; design, production, agency, and advertising; copyright agency; computer animation design, production; market research. According to the information provided by the Vendor, as at the date of signing of the Acquisition Agreement, (a) its equity interest is held as to 99% by Mr. Wang (including 35% equity which is beneficially owned by the Beneficiaries, which is now subject to the ETA-A) and 1% by Ms. Li Wen; and (b) Target Holdco A owns 77% equity interest in the PRC Operating Company.

Target Holdco B is a limited liability company established in the PRC with a registered capital of RMB3.0 million which has not yet been paid up. Its scope of business operations includes: business management; software development; organization of cultural and artistic exchange activities (excluding performances); application software services (excluding medical software); computer system services; market research; business management consulting; business planning; design, production, agency, and advertising; basic software services; technology development, technology consulting, technology transfer, technology promotion, technical services; literary and artistic creation; undertaking exhibitions and exhibitions; internet information services; engaged in internet cultural activities; radio and television program production. According to the information provided by the Vendor, as at the date of signing of the Acquisition Agreement, (a) its equity interest is held as to 99% by Mr. Zhang and 1% by Mr. Chen Bin; and (b) Target Holdco B owns 20% equity interest in the PRC Operating Company.

Target Holdco C is a limited liability partnership established in the PRC with a registered capital of RMB10.0 million which has not yet been paid up. Its scope of business operations includes: general projects: engaged in investment activities with self-owned funds; technical services, technology development, technology consulting, technology exchange, technology transfer, and technology promotion. According to the information provided by the Vendor, as at the date of signing of the Acquisition Agreement, (a) its partnership shares are held as to 51%, 33.3% and 15.7% by Baiming Technology Group, Mr. Fan Xiaofeng and the Vendor, respectively; and (b) Target Holdco C owns 3% equity interest in the PRC Operating Company.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the equity owners of the three Target Holdcos and, where applicable, their ultimate beneficial owners, is an Independent Third Party.

PRC Operating Company

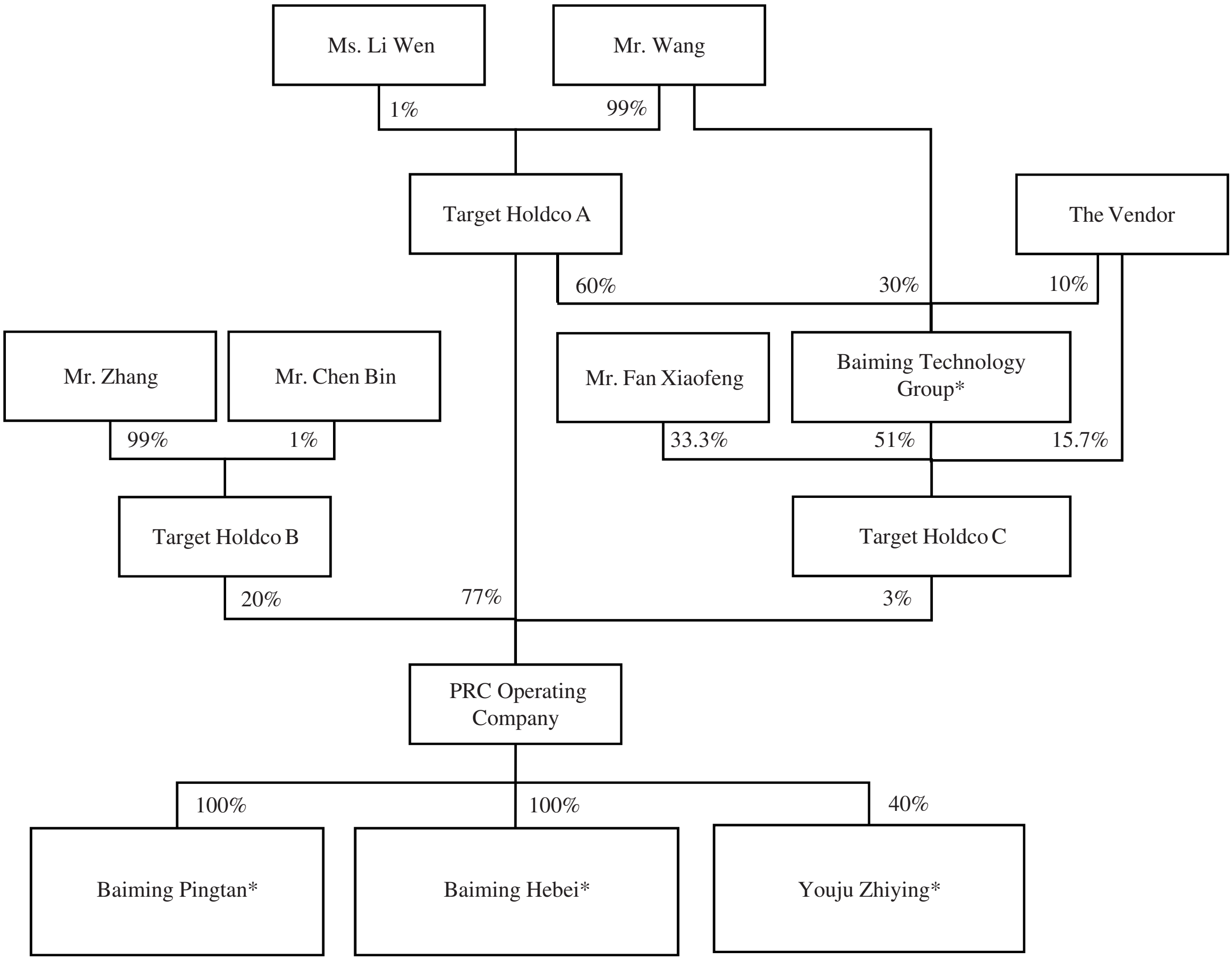
The PRC Operating Company is a limited liability company established in the PRC with a registered capital of RMB30.0 million, among which RMB8.0 million has been paid up. Its scope of business operations includes: technology development, technology transfer, technology consulting, technical services; organizing cultural and artistic exchange activities (excluding performances); economic and trade consulting; business management consulting; design, production, agency, and advertising; copyright trade; computer animation design and production; market investigation; radio and television program production; internet information services. According to the information provided by the Vendor, as at the date of signing of the Acquisition Agreement, (a) its equity interest is held as to 77%, 20% and 3% by Target Holdco A, Target Holdco B and Target Holdco C, respectively; and (b) the PRC Operating Company owns 100% equity interest in 百鳴(平潭)信息技術有限公司 (Baiming (Pingtan) Information Technology Co., Ltd.) ("**Baiming Pingtan**") and 百鳴(北京)信息技術有限公司河北分公司 (Baiming (Beijing) Information Technology Co., Ltd. Hebei Branch) ("**Baiming Hebei**"), and 40% equity interest in 北京優聚智贏知識產權服務有限公司 (Beijing Youju Zhiying Intellectual Property Service Co., Ltd.) ("**Youju Zhiying**")..

The PRC Operating Company is a technology-based information comprehensive service enterprise in reliance on its own research and development of artificial intelligence recognition technology, video content understanding technology, intelligent recommendation algorithm technology, user portrait analysis technology, intelligent distribution technology applicable to internet scenarios. It holds the Radio and Television Program Production and Business Operation License (廣播電視節目製作經營許可證) issued by the Beijing Radio and Television Administration of the PRC.

Xiaozhu Youban (小豬優版) is the key video content creation platform operated by the PRC Operating Company. The platform mainly provides, among others, copyright commercial operation service, content promotion service, content distribution service with an aim to providing content creators with a simple, fast, efficient and high-value content open platform for their creation and distribution of short videos. Based on the information provided by the Vendor, Xiaozhu Youban has over 230,000 content creator accounts, including institutional users and individual users. Xiaozhu Youban has integrated and introduced numerous film and television works of over 280,000 hours with copyrights to share with its content creators for their secondary creation into short films. Short films produced by content creators will then be distributed by Xiaozhu Youban to over 20 domestic and foreign short video platforms in return for view counts and cash subsidies.

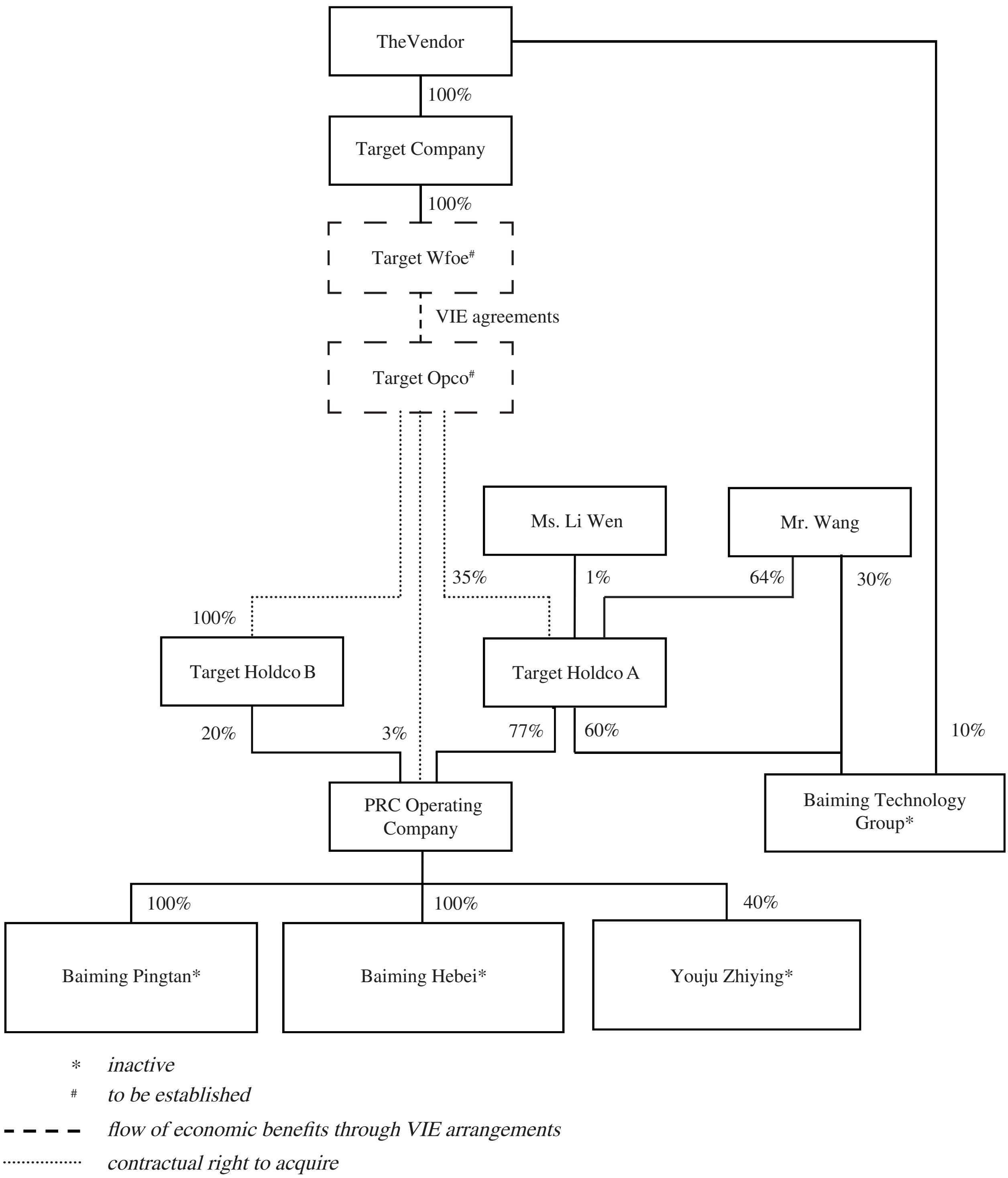
GROUP STRUCTURE

The shareholding structure of the Target Onshore Group before the signing of the Equity Transfer Agreements were as follows:

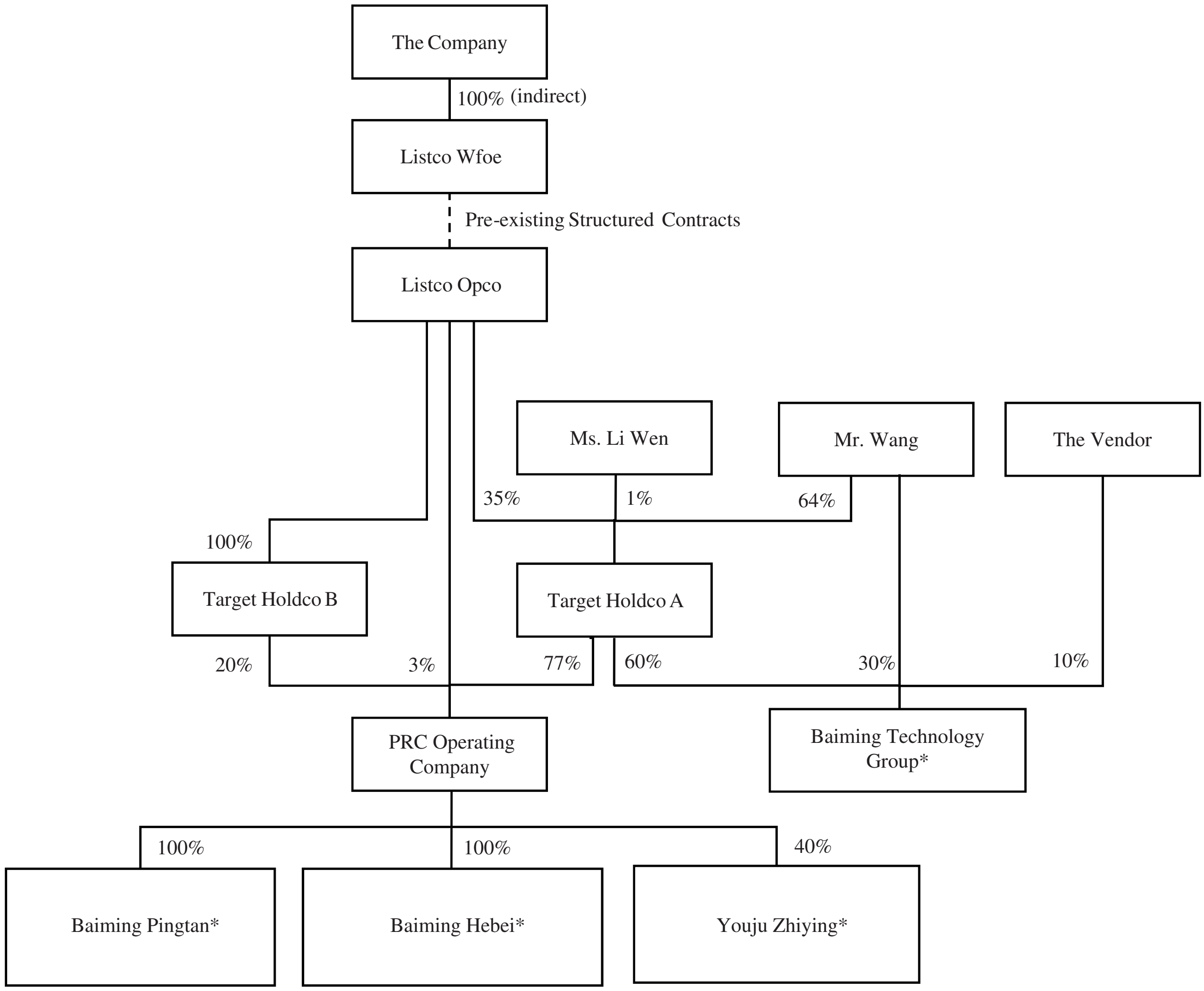


* *inactive*

The shareholding structure of the Target Company and the Target Onshore Group after the signing of the Equity Transfer Agreements but before Acquisition Completion is as follows:



The shareholding structure of the Target Onshore Group after completion of the Equity Transfer Agreements and the Acquisition Completion will be as follows:



* *inactive*

- - - - *flow of economic benefits through Pre-existing Structured Contracts*

FINANCIAL INFORMATION OF THE TARGET COMPANY AND THE TARGET ONSHORE GROUP

According to the information provided by the Vendor, no audited or management accounts have been prepared by the Target Company since its date of incorporation, as it was inactive and did not have any assets or liabilities prior to the entering into of the ETAs.

The financial information of Target Holdco A, Target Holdco B and the PRC Operating Company as extracted from their unaudited accounts for the two years ended 31 December 2021 are summarized as below:

	Target Holdco A	**Target Holdco B**	**PRC Operating Company**
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
	RMB'000	*RMB'000*	*RMB'000*
For the year ended 31 December 2020			
Net (loss) before tax	(17)	N/A *(Note)*	(1,219)
Net (loss) after tax	(17)	N/A *(Note)*	(1,219)
For the year ended 31 December 2021			
Net profit/(loss) before tax	88	(1,711)	(69,141)
Net profit/(loss) after tax	86	(1,711)	(69,141)

Note: As Target Holdco B was incorporated on 25 January 2021, therefore, the financial information of Target Holdco B for the year ended 31 December 2020 is not available.

As at 30 June 2022, the unaudited net asset value of Target Holdco A, Target Holdco B and the PRC Operating Company were approximately RMB3.1 million, approximately RMB2.4 million and approximately RMB15.2 million, respectively.

SHAREHOLDING STRUCTURE OF THE COMPANY

The table below illustrates the shareholding structures of the Company (i) as at the date of this announcement; (ii) immediately after the issue of the CPS Conversion Shares upon full exercise of conversion rights attaching to the CPS; (iii) immediately after the issue of the CB Conversion Shares upon full exercise of conversion rights attaching to the Convertible Bonds; and (iv) immediately after the issue of the CPS Conversion Shares and the CB Conversion Shares upon full exercise of conversion rights attaching to the CPS and the Convertible Bonds, in each case assuming that there is no other change in the issued share capital of the Company:

	As at the date of this announcement		Immediately after the issue of the CPS Conversion Shares upon full exercise of conversion rights attaching to the CPS		Immediately after the issue of the CB Conversion Shares upon full exercise of conversion rights attaching to the Convertible Bonds		Immediately after the issue of the CPS Conversion Shares and the CB Conversion Shares upon full exercise of conversion rights attaching to the CPS and the Convertible Bonds	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Connected Persons								
Mr. Chen	1,758,164	0.19	1,758,164	0.13	1,758,164	0.16	1,758,164	0.12
The Creditor *(Note 1)*	225,440,510	23.90	609,076,841	45.90	225,440,510	20.96	609,076,841	41.74
Sub-total	227,198,674	24.08	610,835,005	46.03	227,198,674	21.13	610,835,005	41.86
Public Shareholders								
The Vendor	–	–	–	–	132,010,713	12.27	132,010,713	9.05
Other Public Shareholders	716,240,162	75.92	716,240,162	53.97	716,240,162	66.60	716,240,162	49.09
Total	943,438,836	100.00	1,327,075,167	100.00	1,075,449,549	100.00	1,459,085,880	100.00

Notes:

1. The shareholding percentage for the Creditor is for illustration only. Under the terms of the CPS, the Creditor is unable to convert CPS to an extent which would trigger any mandatory general offer obligations under the Takeovers Code.

2. Certain percentage figures in the above table are subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

VIE ARRANGEMENTS AND THE STRUCTURED CONTRACTS

The PRC Operating Company is licensed to engage in the operation of television programme production, which fall under a foreign investment prohibited category. To enable the economic benefits to flow from the Target Onshore Group to the Target Company, the ETA contemplates that the Target Company establishes a VIE structure between Target Wfoe and Target Opco before Target Opco is in the position to complete the ETAs. As already explained in the section headed "Subject of the Acquisition" of this announcement, following the signing of the Acquisition Agreement with the Company, the Company intends to utilize the existing VIE structure between Listco Wfoe and Listco Opco to enable the flow of economic benefits from the business of the Target Onshore Group to the Group.

The detailed terms of the Structured Contracts, including their dates, parties, key terms and termination/renewal clauses, are already disclosed on pages 47 to 60 of the Annual Report 2021. In essence, the Structured Contracts comprise:

(1) The loan agreement (the "**Loan Agreement**") dated 17 December 2015 (as supplemented on 31 July 2022) between Listco Wfoe (as lender) and the Listco Opco Shareholders (as borrowers), under which the subject loan cannot be repaid without prior written consent of Listco Wfoe.

(2) The equity pledge agreement (the "**Equity Pledge Agreement**") dated 17 December 2015 (as supplemented on 31 July 2022), under which the Listco Opco Shareholders (as pledgors) pledged 60% and 40% equity in Listco Opco in favour of Listco Wfoe (as pledgee) to guarantee the amounts due under the Loan Agreement and the Service Agreement. Pursuant to the Equity Pledge Agreement, Listco Wfoe is entitled to all of the benefits arising from the pledged equity interests including dividends.

(3) The voting right proxy agreement (the "**Voting Right Proxy Agreement**") dated 17 December 2015 (as supplemented on 31 July 2022), under which the Listco Opco Shareholders (as appointers) granted to the Listco Wfoe (or its successor in title) the power to exercise the rights as the registered shareholders of the Listco Opco including the rights to vote in a shareholders' meeting, sign minutes, file documents with the relevant companies registry, and the right to appoint liquidator(s) to exercise all of the rights of the Listco Opco Shareholders and to seize the Listco Opco's assets upon winding-up of the Listco Opco for the benefit of the Listco Wfoe or creditors. In addition, Listco Opco Shareholders may not transfer all or any part of their equity interest in Listco Opco without the prior written consent of Listco Wfoe.

(4) The exclusive purchase option agreement (the "**Exclusive Purchase Option Agreement**") dated 17 December 2015 (as supplemented on 31 July 2022), under which the Listco Opco Shareholders irrevocably granted to Listco Wfoe or its designee(s) an exclusive option to purchase, at any time if and when permitted under PRC laws, all or part of their equity interests in Listco Opco at the agreed price, being the higher of (i) RMB1 million (being its paid up registered capital); and (ii) the lowest price permissible under PRC laws, and requiring the Listco Opco Shareholders to return to Listco Wfoe or its nominee any consideration that Listco Opco Shareholders had received from Listco Wfoe for the acquisition of the equity interests in Listco Opco.

(5) The service agreement (the "**Service Agreement**") dated 17 December 2015 (as supplemented on 31 July 2022), under which Listco Wfoe agreed to provide to Listco Opco consulting services including (i) market research; (ii) business development and market consultation; (iii) consulting services in respect of labor matters; (iv) construction and maintenance of information networks and network security; (v) technical support for software and technology; and (vi) other services in relation to its business operations, at such service fees as are according to the nature of the service content and time spent on market price.

(6) the undertaking (the "**Mr. Xu's Spousal Undertaking**") dated 31 July 2022 by Mr. Xu Kaining ("**Mr. Xu**"), one of the Listco Opco Shareholders, and his spouse such that the 40% equity interests held by Mr. Xu in Listco Opco do not form part of their matrimonial property and containing a renunciation by Mr. Xu's spouse on any right to Listco Opco.

(7) the undertaking (the "**Mr. Zheng's Spousal Undertaking**") dated 31 July 2022 by Mr. Zheng Boling ("**Mr. Zheng**"), one of the Listco Opco Shareholders, and his spouse such that the 60% equity interests held by Mr. Zheng in Listco Opco do not form part of their matrimonial property and containing a renunciation by Mr. Zheng's spouse on any right to Listco Opco.

As explained in the 2021 Annual Report, the principal reasons for the entering into of the Structured Contracts were (a) to establish a contractual position which allows the economic benefits of the businesses and operations of the Listco Opco and its subsidiaries (the "**Listco Opco Group**") to flow to the Group; (b) through the control of the right of nomination of directors of Listco Opco, to monitor, supervise and effectively control the business, operations and financial policies of the Listco Opco Group which in turn ensure due implementation of the Structured Contracts; (c) to prevent any possible leakage of assets to the Listco Opco Shareholders; and (d) to enable the Group to acquire the equity interest of the Listco Opco at an agreed price, which was fixed as a matter of relatively nominal sums (i.e. at par to its paid up registered capital) and being the lowest prices permissible under PRC law.

Please refer to the section headed "Group Structure" for the illustration of the equity shareholding relationship (shown by solid lines), contractual right under the ETAs (shown by dotted lines) and the flow of economic benefit through VIE structure (shown by dashed lines) between the Group, the Target Company and the Target Onshore Group before and after the signing of the ETAs and the Acquisition Agreement.

Reasons for using the VIE structure in the Acquisition

The reason for the Company and the Vendor to adopt the VIE structure was that the relevant business as operated by the Target Onshore Group are subject to foreign investment prohibition under the laws of the PRC, such that neither the Company nor the Target Company would be able to own or hold any direct equity interest in the PRC Operating Company.

Foreign investment activities in the PRC are governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020) (外商投資准入特別管理措施(負面清單) (2020年版)) (the "**Negative List**") which was promulgated and are amended from time to time jointly by National Development and Reform Commission ("**NDRC**") and the Ministry of Commerce of the PRC (the "**Mofcom**"). The Negative List sets forth the industries in which foreign investment is restricted or prohibited. A summary of the target business that are subject to foreign ownership prohibition in accordance with the Negative List and other applicable PRC laws and regulations is set forth below.

Categories	**Relevant businesses**	**Foreign Ownership prohibitions**
Prohibited Business	The PRC Operating Company holds a Radio and Television Production Operation License (廣播電視節目製作經營許可證) for the production and release of radio and television programs.	Based on the advice obtained by the Company from its PRC legal advisers, foreign investors are prohibited from holding equity interests in any enterprise engaging in radio and television programs production and operation business, according to the Negative List and the Regulations on the Administration of Production of Radio and Television Programs (廣播電視節目製作經營管理規定).

In light of such foreign ownership prohibition, the Target Company intends to nominate Listco Wfoe to acquire the ETA Interests, such that the pre-existing Structured Contracts would enable the Company to capture the economic benefits of the ETA Interests. The Structured Contracts were in place for many years and have enabled the Company to consolidate the financial results and assets of Listco Opco in the Company's audited consolidated financial statements, as if Listco Opco were a subsidiary of the Group.

Dispute resolutions

The terms of the Structured Contracts provide that the arbitration tribunal may award remedies over the equity interests or assets of Listco Opco, or order the winding up of Listco Opco. The Structured Contracts also include a clause in relation to dispute resolution among the parties whereby, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Bermuda, the PRC and the location where the principal assets of the Company and Listco Opco are located.

Protection of the interest and assets of Listco Opco

The Structured Contracts include a provision that each agreement is binding on the liquidators, the successors and permitted assignees of the respective parties. In the event of death, bankruptcy or divorce of a Listco Opco Shareholder, Listco Wfoe may exercise its option(s) under the Exclusive Purchase Option Agreement to replace the relevant party of such registered shareholder, thus protecting the interest of the Group and allowing Listco Wfoe to enforce its rights under the Structured Contracts against the liquidators, the successors and permitted assignees of such Listco Opco Shareholder.

Legality under the PRC law

It is the view of the Directors that the Structured Contracts have been narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations. The PRC legal advisers of the Company has also confirmed to the Company that: (a) the Structured Contracts comply with PRC laws, rules and regulations, including those applicable to the business of the Listco Wfoe and Listco Opco; (b) the Structured Contracts would not be deemed as "concealing illegal intentions with a lawful form" and void under the PRC contract law; (c) the target business is not one of which foreign investors are specifically disallowed by the relevant laws and regulations in the PRC from using agreements (including through VIE arrangements or those under the Structured Contracts) to gain control or operate. The Company will monitor the development of the relevant PRC laws, including to unwind the VIE arrangements under the Structured Contracts to the extent possible and practicable under the relevant PRC laws and regulations.

As advised the Company's PRC legal advisers, the Structured Contracts do not require any approvals from the PRC governmental authorities, except that: (1) the exercise of the option by the Listco Wfoe of the Exclusive Purchase Option Agreement to acquire all or part of the equity interests in the Listco Opco are subject to the approvals of, consent of, filing with and/or registrations with the PRC governmental authorities; (2) the pledges under the Equity Pledge Agreement is required to be registered with the competent administration bureau for market regulation; and (3) the arbitration awards/interim remedies provided under the dispute resolution provision of the Structured Contracts must be recognized by the PRC Courts before compulsory enforcement. Based on the above, the Directors believe that the Structured Contracts conferring significant control and economic benefits from Listco Opco to Listco Wfoe are enforceable under the relevant laws and regulations.

Internal Control

The parties have put in place internal control measures to enable the Group to exercise effective internal control over and to safeguard the assets of the Listco Opco Group. Under the Exclusive Purchase Option Agreement, the Listco Opco Shareholders: (a) shall not, sell, transfer, pledge or otherwise dispose of or encumber the assets of the Listco Opco without the prior consent of the Listco Wfoe; (b) shall procure that Listco Opco operates its business activities in a prudent and effective manner according to the good financial and business standards and maintain asset value of the Listco Opco; and (c) shall meet all request of Listco Wfoe for the provision of business and financial information of the Listco Opco.

Potential conflicts of interest

To mitigate any potential conflict of interest, the Listco Opco Shareholders granted the Voting Right Proxy Agreement to appoint the Listco Wfoe as their proxy to act on their behalves on matters concerning their rights as the shareholders of the Listco Opco.

Risks associated with the use of VIE structure

(1) FIL Law

On 15 March 2019, the Foreign Investment Law (the "**FIL Law**") was formally passed by the 13th National People's Congress and has taken effect on 1 January 2020 and became the legal foundation for foreign investment in the PRC. However, the FIL Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by the Company's PRC legal adviser, contractual arrangements are not currently specified as foreign investment under the FIL Law. Assuming that no future laws, administrative regulations or provisions prescribed by the State Council were to change the present state of law by categorizing contractual arrangements as a form of foreign investment, the Structured Contracts and the VIE arrangements thereunder should continue to be legal, valid and binding on the parties.

Notwithstanding the above, the PRC legal advisers have advised the Company that there exist uncertainties regarding the interpretation and application of PRC laws and regulations regarding the performance and enforcement of contractual arrangements. As such, there can be no assurance that the relevant PRC regulatory authorities will not, in the future, determine that the contractual arrangements are in breach of applicable PRC laws. If the contractual arrangements are found to be in breach of any existing or future PRC laws, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including revoking the business and operating licenses held by Listco Opco Group, restricting or prohibiting any transactions between the Company and Listco Opco, imposing penalties or other requirements with which the Company may not be able to comply, or requiring the Company to restructure the relevant ownership, control or operating structure of the Company or its business. The imposition of any of these penalties or requirements could result in a material and adverse effect on its business, and could even result in the Company being required to cease the relevant businesses completely. As of the date of this announcement, the Company has not encountered any interference from any governing bodies in operating its business through the Listco Opco under the VIE arrangements.

(2) Tax implications

Under the PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The Group could face material adverse tax consequences if the PRC tax authorities determine that the VIE arrangements do not represent arm's length negotiations and consequently adjust the income and expenses of the Listco Wfoe for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could adversely affect the Group's financial position by increasing the relevant tax liabilities of the Listco Wfoe without reducing the tax liabilities of the Listco Opco. In addition, the PRC tax authorities may impose late payment fees and other penalties on the Listco Wfoe for any unpaid taxes. As a result, any transfer pricing adjustment could have a material adverse effect on the Group's financial position and results of operations.

Under the Exclusive Purchase Option Agreement, the Listco Wfoe is granted the exclusive option to, when the relevant PRC laws and regulations permit, purchase from the Listco Opco Shareholders all or part of their equity interests in the Listco Opco at a pre-determined option exercise price. In the event that the relevant PRC authorities determine that the option exercise price is below the market value, the Listco Wfoe may be required to pay enterprise income tax with reference to the market value such that the amount of tax may be substantial, which could materially and adversely affect the business, financial condition and results of operations of the Group.

(3) Effectiveness of management and flow of economic benefits through VIE structure

The Group relies on Listco Wfoe's rights under the Structured Contracts to effect changes in the management of the Listco Opco and make an impact on its business decision making, as opposed to exercising its rights directly as a shareholder. If the Listco Opco or the Listco Opco Shareholders refuse to cooperate, it will take time for the Group to enforce the contract to exert effective control, exposing the Group to time delay, litigation uncertainties and business disruptions in the meantime.

(4) No insurance covering the risks of VIE arrangements

The insurance of the Group does not cover the risks relating to the VIE arrangements and the transactions contemplated thereunder. If any risk arises from the VIE arrangements in the future, such as those affecting the enforceability of the Structured Contracts, the results of the Group may be adversely affected. To mitigate the risk, the Group will monitor the relevant legal and operational environment from time to time.

(5) Economic risks of the Company

Listco Wfoe, as the primary beneficiary of Listco Opco, is not obligated under any of the Structured Contracts to share the losses of Listco Opco or provide financial support to Listco Opco. Moreover, as a limited liability company, Listco Opco is solely liable for its own debts and losses. However, since the relevant parties have already entered into the Structure Contracts, the financial results of Listco Opco will be consolidated into the financial statements of the Group and it is likely that the Company's business and financial position will be affected if Listco Opco suffer losses or fails to obtain the requisite licenses and approvals to continue operating its business in the PRC.

(6) Arrangement when potential conflicts of interest arise

Listco Wfoe relies on the Structured Contracts to exercise control over and to draw the economic benefits from Listco Opco. Listco Wfoe may not be able to provide sufficient incentives to the Listco Opco Shareholders for the purpose of encouraging them to act in the best interests of Listco Opco, other than stipulating the relevant obligations in the Structured Contracts. The Listco Opco Shareholders may refuse to comply with the Structured Contracts in the event of conflicts of interest or deterioration of their relationship with Listco Wfoe, the results of which may have a material adverse impact on Listco Wfoe's business, prospects and results of operation.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Loan Capitalisation

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

The EGM will be held for the Shareholders to consider and, if thought fit, approve the ordinary resolution(s) in respect of, among other things, the Loan Capitalisation and the transactions contemplated thereunder, including the issue of the CPS and the allotment and issue of the CPS Conversion Shares (upon conversion) under the CPS Specific Mandate. In accordance with the Listing Rules, the Creditor and its associates (including Mr. Chen) will be required to abstain from voting on the resolution(s) in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder and the grant of the CPS Specific Mandate at the 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 regarding the terms of the Loan Capitalisation Agreement. An Independent Financial Adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Loan Capitalisation; (ii) a notice of EGM; and (iii) other information as required under the Listing Rules, is expected to be dispatched to the Shareholders on or before 30 September 2022.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on 1 August 2022, pending the publication of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 5 August 2022.

WARNING

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

DEFINITIONS

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

"Acquired Interest"	the entire issued share capital and shareholders' loans of the Target Company proposed to be acquired by the Company from the Vendor under the Acquisition
"Acquisition"	the proposed acquisition of the Acquired Interest by the Company from the Vendor pursuant to the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the sale and purchase agreement entered into amongst the Company (as purchaser), the Vendor and the Target Company dated 31 July 2022 in relation to the Acquisition
"Acquisition Completion"	the completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Acquisition Conditions"	the conditions precedent which must be fulfilled or waived prior to Acquisition Completion according to the Acquisition Agreement
"Acquisition Consideration"	the consideration payable by the Company to the Vendor under the Acquisition
"Acquisition Long Stop Date"	the long stop date for the fulfillment of the Acquisition Conditions, being 15 September 2022 or such later date as may be agreed in writing between the parties
"acting in concert"	having the meaning ascribed thereto under the Takeovers Code
"AGM"	the annual general meeting of the Company held on 21 June 2022

"associate(s)"	having the meaning ascribed thereto under the Listing Rules
"Baiming Technology Group"	百鳴科技集團有限公司 (Baiming Technology Group Co., Ltd.), a company established in the PRC with limited liability and whose equity is held as to 60%, 30% and 10% by Target Holdco A, Mr. Wang and the Vendor, respectively
"Beneficiaries"	Mr. Shi Zhongyi and Mr. Xie Peng, each beneficially owning 17.5% equity in Target Holdco A which are held on trust in the name of Mr. Wang
"Board"	the board of Directors
"Business Days"	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
"CB Conversion Shares"	the Shares to be allotted and issued by the Company upon the exercise of the conversion rights attaching to the Convertible Bonds
"Company"	ShiFang Holding Limited, a company incorporated in the Cayman Islands with limited liability and re-domiciled and continued in Bermuda and whose shares are listed on the Main Board of the Stock Exchange with stock code: 1831
"connected person(s)"	having the meaning ascribed thereto under the Listing Rules
"Convertible Bond"	convertible bonds to be issued by the Company as consideration of the Acquisition, in the principal amount of HK$92,407,500 carrying the right to convert into Shares at HK$0.70 per CB Conversion Share

"CPS" or "Convertible Preference Share(s)"	an aggregate of 383,636,331 unlisted, non-voting convertible preference shares of the Company to be issued and allotted to the Creditor under the Loan Capitalisation Agreement entitling the holders thereof to convert the same into the CPS Conversion Shares at the initial Conversion Ratio of one (1) CPS Conversion Share for one (1) CPS
"CPS Conversion Shares"	the Shares to be allotted and issued by the Company upon the exercise by the CPS Holders of the conversion rights attaching to the CPS
"CPS Holder(s)"	holder(s) of the CPS
"CPS Specific Mandate"	the specific mandate proposed to be sought from the Independent Shareholders at the EGM to authorize the Directors to issue the CPS and the CPS Conversion Shares (on conversion)
"Creditor"	TopBig International Development Limited, a company incorporated in the British Virgin Islands with limited liability whose entire issued share capital is legally and beneficially owned by Mr. Chen
"Creditor's Loan"	the outstanding sum owed by the Group to the Creditor under the Creditor's Loan Agreement, including loan principal and interest accrued thereon
"Creditor's Loan Agreement"	the loan agreement entered into between the Company and the Creditor dated 22 April 2022, under which the Creditor agreed to continue to provide the Creditor's Loan to the Company for a period of two years at the interest rate of 3% per annum
"Directors"	the directors of the Company

"EGM"	an extraordinary general meeting of the Company to be convened to be held for the purpose of considering, and if thought fit, approving, among other things, the Loan Capitalisation and the transactions contemplated thereunder, including issue of the CPS and the allotment and issue of the CPS Conversion Shares (upon conversion) under the CPS Specific Mandate
"ETAs" or "Equity Transfer Agreements"	collectively, the ETA-A, the ETA-B and the ETA-C
"ETA-A"	the equity transfer agreement between, among others, the Target Company (for and on behalf of the Target Opco, as transferee), Mr. Wang (as vendor), the Beneficiaries and Target Holdco A dated 11 July 2022, pursuant to which Mr. Wang agreed to sell 35% equity interest in Target Holdco A to the Target Opco as nominated by the Target Company
"ETA-A Interest"	35% equity interest in Target Holdco A to be transferred by Mr. Wang to the Target Opco as contemplated by the ETA-A
"ETA-B"	the equity transfer agreement between, among others, the Target Company (for and on behalf of the Target Opco, as transferee), Mr. Zhang and Mr. Chen Bin (as vendors) and Target Holdco B dated 11 July 2022, pursuant to which Mr. Zhang and Mr. Chen Bin respectively agreed to sell 99% and 1% equity interest in Target Holdco B to the Target Opco as nominated by the Target Company
"ETA-B Interest"	100% equity interest in Target Holdco B to be transferred by Mr. Zhang and Mr. Chen Bin to the Target Opco as contemplated by the ETA-B1

"ETA-C"	the equity transfer agreement between, among others, the Target Company (for and on behalf of the Target Opco, as transferee), Target Holdco C (as vendor) and the PRC Operating Company dated 11 July 2022, pursuant to which Target Holdco C agreed to sell 3% equity interest in the PRC Operating Company to the Target Opco as nominated by the Target Company
"ETA-C Interest"	3% equity interest in the PRC Operating Company to be transferred by Target Holdco C to the Target Opco as contemplated by the ETA-C
"ETA Interests"	certain equity interests in the Target Holdcos and the PRC Operating Company agreed to be transferred by the relevant equity holders to Target Opco pursuant to the ETAs, comprising the ETA-A Interest, the ETA-B Interest and the ETA-C Interest
"General Mandate"	the general mandate granted to the Directors to allot, issue and deal with not more than 188,687,767 new Shares (prior to the next annual general meeting of the Company) at the AGM
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee" or "IBC"	the independent committee comprising all the independent non-executive Directors, established by the Board to advise the Independent Shareholders on the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate

"Independent Financial Adviser" or "IFA"	an independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the issue of the CPS) and the grant of the CPS Specific Mandate
"Independent Shareholders"	Shareholders other than (i) the Creditor, Mr. Chen and their associates; and (ii) any Shareholders who have a material interest (within the meaning of the Listing Rules) in the Loan Capitalisation and the CPS Specific Mandate and are required by the Listing Rules to abstain from voting on the relevant resolution(s) at the EGM
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons and associates
"Listco Opco"	北京百傳讀客科技有限公司 (Beijing BaiChuanDuKe Science and Technology Co., Ltd.), a company established in the PRC with limited liability, whose economic benefits are effectively conferred to the Listco Wfoe and whose financial results are consolidated by the Group through VIE arrangements under the Structured Contracts
"Listco Opco Shareholders"	collectively, Mr. Zheng and Mr. Xu
"Listco Wfoe"	福州鼎策文化傳播有限公司 (Fuzhou DingCe Culture Communication Co. Ltd.), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
"Listing Approval"	approval granted or agreed to be granted by the Stock Exchange in respect of the listing of and permission to deal in certain Shares

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Capitalisation"	the capitalisation of the Creditor's Loan owed by the Company to the Creditor through the issuance of the CPS pursuant to the terms of the Loan Capitalisation Agreement
"Loan Capitalisation Agreement"	the loan capitalisation agreement dated 30 July 2022 entered into between the Company and the Creditor in relation to the Loan Capitalisation
"Loan Capitalisation Completion"	the completion of the Loan Capitalisation in accordance with the terms and conditions of the Loan Capitalisation Agreement
"Loan Capitalisation Conditions"	the conditions precedent which must be fulfilled (or waived, where applicable) prior to the Loan Capitalisation Completion according to the Loan Capitalisation Agreement
"Loan Capitalisation Long Stop Date"	the long stop date for the fulfillment of the Loan Capitalisation Conditions, being 31 October 2022 or such later date as may mutually be agreed in writing between the parties
"Mr. Chen"	Mr. Chen Zhi (陳志), an executive Director, the chairman, the chief executive officer and a substantial shareholder of the Company, and the sole shareholder and director of the Creditor
"Mr. Wang"	Mr. Wang Xu (王旭), the registered holder of 99% equity interest in Target Holdco A
"Mr. Xu"	Mr. Xu Kaining (許開寧), the 40% registered shareholder of the Listco Opco
"Mr. Zhang"	Mr. Zhang Zuxing (張祖興), the legal and beneficial owner of 99% equity interest in Target Holdco B

"Mr. Zheng"	Mr. Zheng Boling (鄭柏齡), the 60% registered shareholder of the Listco Opco
"PRC"	the People's Republic of China
"PRC Operating Company"	百鳴(北京)信息技術有限公司 (Baiming (Beijing) Information Technology Co., Ltd.), a company incorporated in the PRC with limited liability, the equity interest of which being 77%, 20% and 3% held by Target Holdcos A, B and C, respectively
"Promissory Note"	the promissory note in the principal amount of HK$92,407,500 to be issued by the Company to settle the Acquisition Consideration, if the Listing Approval is not obtained in respect of the CB Conversion Shares (on conversion) before the Acquisition Long Stop Date
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, the Loan Agreement, the Equity Pledge Agreement, the Voting Right Proxy Agreement, the Exclusive Purchase Option Agreement and the Service Agreement as defined in the section headed "VIE arrangements and the Structured Contracts" of this announcement
"substantial shareholder"	having the meaning ascribed thereto under the Listing Rules

"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Company"	Ideal Class Holdings Limited, a company incorporated in the British Virgin Islands with limited liability owned and controlled by the Vendor
"Target Holdco A"	琢石科技(北京)有限公司 (Zhuoshi Technology (Beijing) Co., Ltd.), a company incorporated in the PRC with limited liability, the equity interest of which being 99% held by Mr. Wang and 1% held by Ms. Li Wen
"Target Holdco B"	中興弘業(北京)企業管理有限公司 (Zhongxing Hongye (Beijing) Enterprise Management Co., Ltd.), a company incorporated in the PRC with limited liability, the equity interest of which being 99% held by Mr. Zhang and 1% held by Mr. Chen Bin
"Target Holdco C"	福建啟興投資合夥企業(有限合夥) (Fujian Qixing Investment Partnership (Limited Partnership)), a limited partnership established under the laws of the PRC, the partnership share of which being 51% held by Baiming Technology Group, 33.3% held by Mr. Fan Xiaofeng and 15.7% held by the Vendor
"Target Holdcos"	collectively, Target Holdco A, Target Holdco B and Target Holdco C
"Target Onshore Group"	collectively, the three Target Holdcos, and PRC Operating Company and their subsidiaries from time to time
"Target Opco"	a PRC domestic company originally intended to be identified and nominated by the Target Company to acquire the ETA Interests under the ETAs and to enter into structured contracts to confer their economic benefit to the Target Wfoe through VIE arrangements

"Target Wfoe"	a wholly foreign owned enterprise originally intended to be established by the Target Company to enter into structured contracts with the Target Opco to capture the economic benefit of the Target Opco, thereby capturing the economic benefit of the ETA Interests indirectly through VIE arrangements
"Vendor"	Mr. Nian Jiaxing (念家興), the legal and beneficial owner of 15.7% partnership share in Target Holdco C and the ultimate beneficial owner of the entire issued share capital of the Target Company
"VIE"	variable interest entity
"%"	per cent.

In this announcement, amounts denominated in RMB have been converted into HK$ at the exchange rate at HK$1.00 = RMB 0.86 for illustration purposes only.

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

Hong Kong, 4 August 2022

As at the date of this announcement, the executive Directors are Mr. Chen Zhi (Chairman & Chief Executive Officer) 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.

* *For identification purposes only*