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

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HUAJUN INTERNATIONAL GROUP LIMITED
華君國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 377)

CONNECTED TRANSACTION —
ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE

Independent financial adviser to
the Independent Board Committee and the Independent Shareholders



Shinco Capital Limited

A notice convening the special general meeting of the Company (the “SGM”) to be held at 3:00 p.m. on Thursday, 21 May 2020 at Conference Room, 36/F, Champion Tower, 3 Garden Road, Central, Hong Kong is set out on pages IV-1 to IV-3 of this circular.

Whether or not you are able to attend and vote at the SGM in person, you are requested to read the notice and to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s Hong Kong branch share registrar, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong as soon as possible but in any event not less than forty-eight (48) hours before the time appointed for holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE SGM

Please refer to page 1 of this circular for the measures to be implemented at the SGM by the Company against the epidemic to protect the attendees from the risk of infection of the Novel Coronavirus (“COVID-19”), including:

- **compulsory body temperature check**
- **compulsory wearing of surgical face mask**
- **No serving of refreshments**

Any person who does not comply with the precautionary measures may be denied entry into the SGM venue. The Company wishes to advise Shareholders that you may appoint the Chairman of the meeting as your proxy to vote on the relevant resolutions at the SGM as an alternative to attending the SGM in person.

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PRECAUTIONARY MEASURES FOR THE SGM

In view of the ongoing COVID-19 epidemic and recent requirements for prevention and control of its spread (as per guidelines issued by the Hong Kong government at <https://www.chp.gov.hk/en/features/102742.html>), the Company will implement necessary preventive measures at the SGM to protect attending Shareholders, proxy and other attendees from the risk of infection, including:

- (i) Compulsory body temperature check will be conducted on every Shareholder, proxy and other attendees at the entrance of the SGM venue. Any person with a body temperature of over 37.5 degrees Celsius may be denied entry into the SGM venue or be required to leave the SGM venue.
- (ii) Attendees are required to prepare his/her own surgical face masks and wear the same inside the SGM venue at all times.
- (iii) No refreshments will be served.

To the extent permitted under law, the Company reserves the right to deny entry into the SGM venue or require any person to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

In the interest of all attendees' health and safety, the Company wishes to advise all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions duly completed, Shareholders may appoint the Chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person.

The proxy form, which can also be downloaded from the Company's website (<https://www.huajunintlgroup.com>), is enclosed to this circular. If you are not a registered Shareholder (i.e., if your Shares are held via banks, brokers, custodians or Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 22 January 2020 relating to the Subscription Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	the holder of the Convertible Bond
“Business Day(s)”	a day (excluding Saturday or Sunday and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted or a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong and PRC are generally open for business
“CHG”	China Huajun Group Limited, a company incorporated in the British Virgin Islands and a controlling Shareholder (as defined under the Listing Rules) of the Company, which is ultimately wholly-owned by Mr. Meng
“closing price”	closing price per Share for any trading day as published by the Stock Exchange
“Company”	Huajun International Group Limited (華君國際集團有限公司) (stock code: 377), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Subscription pursuant to the terms and conditions of the Subscription Agreement
“Completion Date”	the date on which Completion take place in accordance with the Subscription Agreement, which is within ten (10) Business Days after the date of fulfilment (or waiver, as the case may be) of the last of the Conditions (or such other date as the Company and CHG shall agree in writing)

DEFINITIONS

“Condition(s)”	the conditions precedent of the Subscription Agreement as set out in the paragraph headed “Conditions precedent” in the letter from the Board of this circular
“connected person”	has the meaning ascribed to it under the Listing Rules
“Conversion Period”	the period commencing from the date of issue of the Convertible Bond and ending on the date which falls on the Business Day immediately before Maturity Date, both dates inclusive
“Conversion Price”	the conversion price of HK\$38.00 per Conversion Share
“Conversion Rights”	the conversion rights attaching to the Convertible Bond to convert the principal amount or a part thereof into Conversion Shares
“Conversion Share(s)”	the 26,315,789 new Shares which may fall to be allotted and issued to CHG at the Conversion Price, credited as fully paid, upon full exercise of the Conversion Rights by CHG
“Convertible Bond”	convertible bond in the aggregate principal amount of HK\$1,000,000,000 to be issued by the Company, pursuant to the Subscription Agreement
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Subscription

DEFINITIONS

“Independent Financial Adviser”	Shinco Capital Limited, a corporation licensed by the Securities and Futures Commission to carry on type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription
“Independent Shareholders”	Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolutions approving the Subscription Agreement, the transactions contemplated thereunder and the issue of the Convertible Bond and Convertible Shares under the Specific Mandate
“Independent Third Parties”	persons or companies which are independent of and not connected with any of the directors, chief executive and substantial shareholders (as defined under the Listing Rules) of the Company or any of its subsidiaries and their-respective associates (as defined under the Listing Rules), and the term “Independent Third Party” shall be construed accordingly
“Instrument”	the instrument of the Convertible Bond to be executed by the Company in relation to the Convertible Bond to be issued by the Company to CHG or its nominee under the Specific Mandate
“Issue Price”	the issue price of the Convertible Bond, which shall be 100% of the principal amount of the Convertible Bond
“Last Trading Day”	21 January 2020, being the last trading day immediately prior to the entering into the Subscription Agreement
“Latest Practicable Date”	24 April 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained in this circular
“Listing Committee”	has the same meaning ascribed to it in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Madam Bao”	Madam Bao Le (鮑樂), the spouse of Mr. Meng
“Maturity Date”	the date falling on the fifth anniversary from the date of issue of the Convertible Bond
“Mr. Meng”	Mr. Meng Guang Bao (孟廣寶), the chairman, an executive Director and a substantial shareholder (as defined under the Listing Rules) of the Company
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, Macau Special Administrative Region and Taiwan
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Subscription and the grant of the Specific Mandate
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Specific Mandate”	the specific mandate for the allotment and issue of the Conversion Shares to be granted to the Directors by the Independent Shareholders at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription of the convertible bond in the aggregate principal amount of HK\$1,000,000,000 to be issued by the Company, pursuant to the Subscription Agreement dated 22 January 2020 entered into between CHG and the Company
“Subscription Agreement”	the subscription agreement dated 22 January 2020 entered into by CHG and the Company in respect of the Subscription
“Takeovers Code”	The Code on Takeovers and Mergers published by the SFC from time to time

DEFINITIONS

“%”	per cent.
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

* *For identification purposes only. The Chinese names of the respective individuals and entities have been translated into English in this circular. In the event of any discrepancies between the Chinese names and the corresponding English translation, the Chinese names prevail.*

For the purposes of illustration only, any amount denominated in RMB in this circular was translated into HK\$ at the rate of RMB1 = HK\$1.12. Such conversion should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.

If there is any inconsistency in this circular between the Chinese and English versions, then English version shall prevail.



HUAJUN INTERNATIONAL GROUP LIMITED

華君國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 377)

Executive Directors:

Mr. Meng Guang Bao

Ms. Zhang Ye

Ms. Huang Xiumei

Ms. Bao Limin

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-Executive Directors:

Mr. Zheng Bailin

Mr. Shen Ruolei

Mr. Pun Chi Ping

Head office and principal place of

business in Hong Kong:

36/F, Champion Tower

3 Garden Road

Central

Hong Kong

29 April 2020

To the Shareholders and for information only,

Dear Sir/Madam,

CONNECTED TRANSACTION — ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE

INTRODUCTION

Reference is made to the Announcement published by the Company on 22 January 2020 in relation to issue of Convertible Bond under Specific Mandate which constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Board proposes to seek the approval of the Independent Shareholders for the issue of Convertible Bond under Specific Mandate.

The purpose of this circular is to provide you, among others:

- (a) details of the issue of Convertible Bond under Specific Mandate;
- (b) the recommendations of the independent non-executive Directors in relation to the Subscription Agreement and the issue of Convertible Bond under Specific Mandate;

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- (c) the recommendations of the Independent Financial Adviser in relation to Subscription Agreement and the issue of Convertible Bond under Specific Mandate; and
- (d) a notice of the SGM for passing the relevant ordinary resolutions.

1. ISSUE OF CONVERTIBLE BOND

On 22 January 2020 (after trading hours), the Company entered into a conditional Subscription Agreement with CHG, the substantial shareholder of the Company, pursuant to which the Company has conditionally agreed to issue, and CHG has conditionally agreed to subscribe for, the Convertible Bond in the principal amount of HK\$1,000,000,000 at the Issue Price.

Subscription Agreement

Date: 22 January 2020 (after trading hours)

Parties: Issuer: The Company
Subscriber: CHG

As at the Latest Practicable Date, CHG holds 44,450,619 Shares, representing approximately 72.23% of the total issued share capital of the Company, and is ultimately wholly and beneficially owned by Mr. Meng. Mr. Meng, is the chairman, an executive Director and a substantial shareholder of the Company. Accordingly, CHG is a connected person of the Company under the Listing Rules.

Subject matter

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue, and CHG conditionally agreed to subscribe for, the Convertible Bond in the principal amount of HK\$1,000,000,000 at the Issue Price.

Conversion Price

The Conversion Price of HK\$38.00 per Conversion Share, representing:

- (a) a premium of approximately 192.31% over the closing price of HK\$13.00 per Share as quoted on the Stock Exchange on 22 January 2020, being the date of the Subscription Agreement;
- (b) a premium of approximately 208.94% over the closing price of HK\$12.30 per Share as quoted on the Stock Exchange on Last Trading Day;
- (c) a premium of approximately 204.49% over the average closing price of HK\$12.48 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to the date of the Subscription Agreement and including the Last Trading Day;

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- (d) a premium of approximately 203.03% over the average closing price of HK\$12.54 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately prior to the date of the Subscription Agreement and including the Last Trading Day;
- (e) a discount of approximately 19.85% to the audited net asset value of approximately HK\$47.41 per Share of the Company as at 31 December 2018;
- (f) a discount of approximately 21.82% to the unaudited net asset value of approximately HK\$48.6 per Share of the Company as at 31 December 2019; and
- (g) a premium of approximately 341.86% over the closing price of HK\$8.6 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Convertible Bond carries the right to convert into the Conversion Shares at the Conversion Price of HK\$38.00 per Conversion Share (subject to adjustment). Assuming the Conversion Rights are exercised in full at the Conversion Price, 26,315,789 new Shares, being the Conversion Shares, may be allotted and issued to CHG subject to the Conversion Restrictions, representing approximately 42.76% of the issued share capital of the Company as at the Latest Practicable Date and approximately 29.95% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares, assuming that there are no other changes in the share capital of the Company from the Latest Practicable Date to the Completion Date. The details of the shareholdings are set out in the paragraph headed "EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" below.

The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the SGM.

Basis of the Conversion Price

The Conversion Price was arrived at after arm's length negotiations between the Company and CHG with reference to the prevailing market prices of the Shares as shown above in the section headed "Conversion Price". The Board (other than Mr. Meng, who had abstained from voting at the relevant resolution of the Board meeting and will abstain from voting on the relevant resolutions at the SGM) noted that the Conversion Price represents a discount of approximately 21.82% to the unaudited net asset value of approximately HK\$48.6 per Share of the Company as at 31 December 2019. The Board further noted that during the period from 2 September 2019 (about five months prior to the Last Trading Day) up to the Last Trading Day, the Shares had been consistently traded at a discount to the net asset value per Share, ranging from approximately 70.93% to 83.13%, with an average of approximately 77.83%. Further, the Conversion Price is comparatively much higher than the prevailing market prices of the Shares as shown above. Save as disclosed basis, the Company has not considered other factors in determining the Conversion Price.

LETTER FROM THE BOARD

Accordingly, the Board considers that it would be more appropriate to determine the Conversion Price with reference to the prevailing market prices of the Shares, which reflect the fair market value of the Shares traded on the Stock Exchange, instead of making reference to the net asset value per Share.

Further, although the Board observed that it is common for listed issuers in Hong Kong to set the conversion price per Share at a discount to the closing prices of the Shares, in order to protect the interest of the Company and its Shareholders as a whole, the Board insisted to set the Conversion price at substantial high premium instead. After various arm's length negotiation between the Company and CHG, the Board requested for the Conversion Price to be set at a relatively high price as compared to the prevailing market price, to maximising the interest of the Company and its Shareholders as a whole.

Although in light of the Conversion Price will be at a discount to the net asset value per Share of the Company, having considered the facts that the Conversion Price represents substantial premium over most of the benchmark prices set out above, the Directors (including independent non-executive directors) consider the Conversion Price and the terms and conditions of the Subscription Agreement are fair and reasonable based on the current market conditions and in the interests of the Company and Shareholders as a whole.

Conditions precedent

Completion of the Subscription Agreement is conditional upon the fulfilment of the following Conditions:

- (a) the granting of the listing of, and permission to deal in, the Conversion Shares by the Listing Committee of the Stock Exchange;
- (b) the Independent Shareholders having passed the resolutions to approve the Subscription Agreement, the transactions contemplated thereunder and the allotment and issue of the Conversion Shares under the Specific Mandate, and such approval not having been amended and having remained fully effective; and
- (c) any necessary approval, confirmation, waiver or consent by the relevant bodies or other third parties as required relating to the issue of the Convertible Bond having been obtained.

Conditions (a) and (b) are non-waivable. Condition (c) is waivable only by the Company. As at the Latest Practicable Date, the Company has no intention of waiving condition (c). If any of the Conditions cannot be fulfilled (or waived, as the case may be) on or before 30 June 2020 or such later date as agreed between the Company and CHG (the "**Long Stop Date**"), the Subscription Agreement will lapse and the parties thereto shall be released from all obligations thereunder, save for the liabilities for any antecedent breaches of the terms of the Subscription Agreement.

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

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Completion

Completion of the Subscription Agreement shall take place within 10 Business Days after the fulfillment (or waiver, as the case may be) of all Conditions. It is expected the Completion will take place no later than 30 June 2020.

The Issue Price shall be payable by CHG to the Company on the Completion Date in cash.

2. CONVERTIBLE BOND

Principal terms of the Convertible Bond

Principal terms of the Convertible Bond are arrived at after arm's length negotiations between the Company and CHG and are summarised as follows:

Issuer:	the Company
Principal Amount:	HK\$1,000,000,000
Conversion Price:	HK\$38.00 per new Share, subject to adjustment
Maturity Date:	the date falling on the fifth anniversary from the date of issue of the Convertible Bond
Interest:	interest-free
Redemption:	<i>At Maturity</i>

all outstanding principal amount of the Convertible Bond which have not been converted in accordance with the conditions set out in the Instrument by the Maturity Date will be automatically redeemed by the Company on the Maturity Date at a redemption amount equal to 100% of the principal amount of such Convertible Bond, unless the Bondholders request for full conversion of their Convertible Bond

The Company does not have any early redemption right for the Convertible Bond.

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Conversion Rights: each Bondholder shall have the right, exercisable during the Conversion Period, to convert the whole or any part (in multiples of HK\$1,000,000) of the outstanding principal amount of the Convertible Bond held by such Bondholder into such number of Shares as will be determined by dividing the principal amount of the Convertible Bond to be converted by the Conversion Price and no fraction of a Share shall be issued on conversion

Conversion Restrictions: Conversion shall be subject to the following further conditions:

- (a) any exercise of Conversion Rights shall not trigger any mandatory offer under Rule 26 of the Takeovers Code, and in any event, any exercise of Conversion Rights shall not render the Company no longer maintain the minimum public float of the Shares required under the Listing Rules upon the Conversion;
- (b) any exercise of Conversion Rights shall be subject to all applicable laws, rules and regulations, including but not limited to the Listing Rules and the Takeovers Code; and
- (c) any conversion shall be in denominations and integral amounts of HK\$1,000,000.

The above restrictions are collectively referred to as the “**Conversion Restrictions**”.

The minimum public float required under the Listing Rules is 25%.

Transferability: the Convertible Bond (nor any part thereof) can be transferred without the prior written consent of the Company, save and except to a connected person of the Company

any transfer of any Convertible Bond shall be in respect of the whole or any part (in an amount not less than HK\$1,000,000 or such other amount to be agreed by the Company) of the outstanding principal amount of that Convertible Bond

LETTER FROM THE BOARD

Ranking: the obligations of the Company arising under the Convertible Bond constitute general, unsecured and unsubordinated obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law. Conversion Shares, when issued, shall rank pari passu in all respects with all other existing Shares in issue at the date of conversion

Adjustment Events: the Conversion Price shall be subject to adjustment upon occurrence of the following:

(a) consolidation and subdivision:

If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

such adjustment shall become effective from the day on which such consolidation or subdivision becomes effective.

LETTER FROM THE BOARD

(b) capitalisation of profits or reserves:

If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account and/or capital redemption reserve), other than Shares issued in lieu of the whole or a part of a cash dividend, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

such adjustment shall become effective from the day of such issue of Shares.

Save as disclosed above there is no other adjustment events to the Conversion Price.

Voting Rights:

the holders of the Convertible Bond will not be entitled to attend or vote at any meetings of the Company.

LETTER FROM THE BOARD

Having considered the facts that:

- (i) the Conversion Price represents a substantial premium over most of the benchmark prices set out under the paragraph headed “The Agreement — Conversion Price” in this letter of the Board;
- (ii) the Convertible Bond is interest-free, which was agreed by the Company and CHG at arm’s length negotiation. CHG, as the substantial shareholder of the Company, agreed to waive the interest for the Convertible Bond so that the Company’s financial burden incurred by any interest payable can be minimised;
- (iii) the length of the maturity period for the Convertible Bond is 5 years. If the maturity period is just 1 year, then the Company may need to locate alternative financing to repay the Convertible Bond soon which is not favourable to the Company’s financial liquidity. Accordingly, the length of the maturity period for the Convertible Bond of 5 years is fair and reasonable and in the interest of the Company and its Shareholders as a whole; and
- (iv) the other terms of the Convertible Bond are on normal commercial terms,

the Board is of the view that the terms of the Convertible Bond are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Application of Listing

No listing of the Convertible Bond will be sought from the Stock Exchange or any other stock exchange.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon conversion of the Convertible Bond.

3. INFORMATION OF CHG

As advised by CHG, CHG is a company incorporated in British Virgins Islands with limited liabilities and its principal activity is investment holding. CHG is a connected person of the Company under the Listing Rules.

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The above shareholdings of the Company set out in the above table are for illustration purpose only. As one of the Conversion Restrictions is that any exercise of Conversion Rights shall not trigger any mandatory offer under Rule 26 of the Takeovers Code, and in any event, any exercise of Conversion Rights shall not render the Company no longer maintain the minimum public float (i.e. 25%) of the Shares required under the Listing Rules upon the Conversion, the collective shareholding in the Company held by Mr. Meng, CHG and their respective associates shall never reach more than 75%.

5. MANDATE TO ISSUE THE CONVERSION SHARES

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

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Shareholders at the SGM. The Specific Mandate will cease to be effective if any of the Condition(s) has not been satisfied or, if applicable, waived by the Company or the Subscriber (as the case may be) on or before the Long Stop Date. In such case, the Company will comply with the applicable Listing Rules, and seek approval from its Shareholder(s) or Independent Shareholder(s) where required.

6. REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF NET PROCEEDS

The Company is an investment holding company. The principal activities of the Group are: (i) sale and manufacturing of high quality multi-colour packaging products, carton boxes, books, brochures and other paper products; (ii) trading and logistics; (iii) provision of financial services; (iv) property development and investments; and (v) manufacturing, processing and sales of photovoltaic products.

Mr. Meng, through CHG and/or his other associates, has from time to time provided interest free and unsecured financial assistance to the Company. Such arrangement is exempted financial assistance to the Company and is fully exempted from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

The Board has also considered other alternative equity fund raising means including placing of new shares, rights issue or open offer. The Board considers that the rights issue or open offer might incur costly underwriting commission. To obtain the best available terms of the Convertible Bond, the Board approached two potential subscribers, however the Board decided that CHG was the best subscriber because the potential subscribers requested for an interest rate of over 10% per annum and with a shorter maturity period of 1-2 years, as well as lengthy due diligence procedures to be carried out by the other potential subscribers. For placing of new shares, the Company would incur 2% commission for placement of new shares and it is difficult the Company to find investors for subscription of new shares of the Company given the historical trend of the Company's share price and the current market situation. While rights issue or open offer will have uncertain response from existing shareholders, if public shareholders do not subscribe new shares, and only CHG to subscribe, money raised will be limited in order to maintain the public float of 25% and the process would be relatively time-consuming as the Board estimates that it might take approximately 4 to 6 months. With regard to the placing of new shares, it might be difficult for the Board to locate placee(s) who are willing to invest in large sum given the current fluctuation of the stock market and global financial conditions. To explore alternative debt financing methods, the Company has approached two financial institutions, and conducted preliminary discussions with them, who indicated an interest rate of over 10% per annum as well as provision of collateral, therefore, the Company was of the view that these terms were not favourable to the Company compared to the terms of the proposed issue of convertible bonds to CHG. In light of the above, the Board considers that it is unlikely that the Group could secure a committed placee with favorable terms in a short period of time.

Although the allotment and issue of Conversion Shares might dilute the shareholding interests of the existing public Shareholders in the Company in future, which may be seen as a disadvantage to the existing Shareholders, the collective shareholding in the Company held by Mr. Meng, CHG and their respective associates shall never reach more than 75% as the Conversion Rights are subject to Conversion Restrictions. Furthermore, by way of allotment and issue of Conversion Shares, the Company's gearing ratio will be decreased accordingly. The Company has considered alternative debt financing. However, the use of debt financing may (i) create immediate additional interest burden to the Group, which might affect the Group's financial performance; (ii) involve provision of security; (iii) subject to, including but not limited to, lengthy due diligence due to investigation by the lending banks on pledged assets, if required, and negotiations with the banks with regards to the Group's financial position and capital structure; and (iv) the then prevailing stock market condition, the Directors consider that debt financing might be uncertain and time consuming in compared to the issue of Convertible Bond to CHG for financing the operation of the Company.

LETTER FROM THE BOARD

The net proceeds from the Subscription will be approximately HK\$999,500,000 and are expected to be used with details as follow:

Use of Proceeds	Approximate amount <i>(in HK\$)</i>	Expected Timing
(i) Repayment of borrowings <i>(Note 1)</i>	537,600,000	First half of 2020
(ii) Capital expenditure for high-end printing and packaging production base in Jiangsu <i>(Note 2)</i>	168,000,000	Second half of 2020 to first half of 2021
(iii) General working capital <i>(Note 3 & 4)</i>	<u>293,900,000</u>	First half of 2020
Total:	<u><u>999,500,000</u></u>	

Notes:

- Such loan repayment shall be made to China Great Wall Asset Management Co., Ltd Shanghai Branch* (中國長城資產管理股份有限公司上海分公司) (the "Lender"), an independent third party of the Company (as the lender) by the Company's indirectly wholly owned subsidiary Baohua Properties Development (Shanghai) Limited* (保華房地產開發(上海)有限公司) (as the borrower). This loan was provided on an interest rate of 10% p.a.. As at the Latest Practicable Date, the total amount outstanding is RMB1,440 million (equivalent to approximately HK\$1,612.8 million). The sum of RMB480 million was originally due in September 2019 and the rest were originally due in 4 equal payments of RMB240 million in December 2019, March 2020, June 2020 and September 2020. The Company is currently in negotiation with the Lender to extend the repayment of the total outstanding amount of RMB1,440 million to September 2022. As at the Latest Practicable Date, based on the current negotiation, the Lender has orally agreed that it will not demand immediate payment of the outstanding amount and will not charge any further penalty during the time of negotiation. However, no formal written undertaking has been signed. In the event that the Lender agrees to the said extension, such net proceeds will be used to repay other loans of the Group that are due in 2020.

LETTER FROM THE BOARD

2. On 15 May 2019, the Company's indirect wholly-owned subsidiary, New Island Printing Company Limited, entered into an agreement with Nanjing Liuhe Economic Development Zone Management Committee* (南京六合經濟開發區管委會), in respect of, amongst other things, the setting up of high-end printing and packaging production based in Liuhe Economic Development Zone* (六合經濟開發區) in the PRC by New Island Packaging Technology (Jiangsu) Company Limited* (新洲包裝科技(江蘇)有限公司), an indirect wholly-owned subsidiary of the Company (the "Liuhe Project"). The total expected funding need of the Liuhe Project is estimated to be in the total sum of RMB282 million (equivalent to HK\$316 million). This will be partially funded by a proportion of the proceeds obtained from the Subscription in the sum of RMB150 million (equivalent to HK\$168 million). The remaining RMB132 million (equivalent to HK\$148 million) is expected to be funded by internal sources and/or new external borrowings from banks, which the Company anticipates should not be difficult to secure, as this remaining sum is required by the Company in stages, rather than in a lump sum, and machinery may be pledged to secure such borrowings. The expected timing for the Liuhe Project is starting from the 2nd quarter of 2020. For further details of the Liuhe Project, please refer to the announcements published by the Company on 15 May 2019, 6 June 2019, 3 July 2019 and 18 July 2019.
3. General working capital of HK\$293,900,000 is expected to be used by our property development and investment business of approximately HK\$201.6 million for the operations and construction of our various property projects under constructions in Shanghai, Dalian, Wuxi and Yingkou, and approximately HK\$59.4 million working capital for our solar photovoltaic business and remaining HK\$32.9 million working capital for our head office including staff salaries, office rental, professional fees and finance costs.

The cash to total assets ratio before and after the Subscription are 1.53% and 6.27% respectively.

Based on current information and assuming no unforeseen circumstances, the working capital requirements of the Company for 12 months ending 31 March 2021 amounted to a total of approximately RMB5,603.1 million include (i) bank loans repayable in the sum of approximately RMB3,552.2 million and interest of RMB790.4 million; (ii) corporate bonds repayment and convertible bonds of RMB248.6 million; (iii) property development costs of RMB905.0 million; and (iv) capital expenditure to high-end printing and packaging production base in Jiangsu in the sum of RMB107.1 million. The aforesaid bank loans (i.e. item (i)) and corporate bonds (i.e. item (ii)) shall mature within the next 12 months.

LETTER FROM THE BOARD

The above working capital requirements are expected to be financed by the (i) operating cash flow generated by the Company in the next 12 months in the sum of RMB2,529.2 million (45.1%) which is expected to be generated from the pre-sale of properties in the next 12 months, the Board is of the view that the estimated amount of operating cash flow is reasonable and fair; (ii) refinancing of existing borrowings in the sum of RMB1,581.0 million (28.2%), which shall be negotiated on a case by case basis, as at the Latest Practicable Date, all of the bank loans which the Company intended to be refinanced can be renewed at maturity; (iii) advance from the immediate holding company of RMB600 million (10.7%); and (iv) new borrowings of the Company, namely the proposed issue of Convertible Bonds in the sum of RMB892.9 million (16.0%). To the best knowledge of the Company, the Company believes that it will have sufficient funds to meet its working capital requirement for 12 months ending 31 March 2021 taking into account of the proceeds from the Subscription. Reference is made to the announcement of the Company dated 27 March 2020 and the supplemental announcement of the Company dated 30 March 2020 (the "Supplemental Announcement") in relation to the unaudited annual results for the year ended 31 December 2019. According to the Supplemental Announcement, the Board expects that the auditor's report to be issued shall contain a paragraph relating to "Material Uncertainty Related to Going Concern". The Board considers that this is largely due to the Group's capital commitments, relatively high gearing ratio and certain portion of property assets which may not be realized into cash within a short period of time. The Board is of the view that the proceeds from the Subscription will improve the liquidity and cash flow position of the Group, by settling current debts of the Group and increasing the general working capital, therefore the Subscription will enhance the Company's ability to continue as a going concern in the current financial year. As at the Latest Practicable Date, the Company does not have any plan or intention to conduct any equity fund raising activities in the next 12 months.

The net issue price, after deduction of the relevant expenses, is approximately HK\$37.98 per Conversion Share.

The Board (including the independent non-executive Directors after taking into account the opinion and advice from the Independent Financial Adviser but excluding Mr. Meng, who had abstained from voting on the relevant resolutions at the board meeting and will be abstained from voting on the relevant resolutions at the SGM), considers raising funds by issuing the Convertible Bond is justifiable because (i) the issue of the Convertible Bond is interest free and lowers financial costs compared to bank borrowings; (ii) it will not have an immediate dilution effect on the shareholding of the existing shareholders of the Company; (iii) the time horizon for the issue of the Convertible Bond is relatively shorter compared to alternative equity fund raising methods; (iv) there will not be any liability and obligations on the Company for payment or repayment (whether in cash or otherwise) in respect of the Convertible Bond if the Convertible Bond are converted into Shares of the Company; and (v) the capital base of the Company will be enlarged by the issue of the new shares upon conversion of the Convertible Bond. In addition, the Convertible Bond, as a financing instrument combining the characteristics of both equity and liability and have a long conversion period, thus being more flexible and a more realistic choice for the Company to replenish its capital.

LETTER FROM THE BOARD

The Directors (including independent non-executive directors), excluding Mr. Meng, who had abstained from voting on the relevant resolutions at the board meeting and will be abstained from voting on the relevant resolutions at the SGM, consider that the terms of the Subscription Agreement including the term for issue of the Convertible Bond, are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

7. EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE-MONTH PERIOD IMMEDIATELY PRECEDING THE DATE OF THE ANNOUNCEMENT

During the past 12 months immediately preceding the date of the Announcement, the Company has conducted the following equity fund raising activities:

Date of announcement	Event	Net Proceeds (approximately)	Intended use of proceed	Actual use of proceed
16 August 2019	Issue of convertible bonds under specific mandate	Approximately HK\$999,500,000	Repayment of borrowings in the sum of HK\$537,600,000 Capital expenditure for high-end printing and packaging production base in Jiangsu (For details, please refer to the announcements published by the Company on 15 May 2019, 6 June 2019, 3 July 2019 and 18 July 2019) Construction of logistics center and commercials on the land successfully bid by the Group (For details of the bidding of the land by the Group through the Listing-for-Sale, please refer to the announcement published by the Company on 29 March 2019) General working capital	Not applicable as the transaction was lapsed on 31 December 2019

LETTER FROM THE BOARD

8. IMPLICATIONS UNDER LISTING RULES

Mr. Meng is a controlling shareholder and an executive director of the Company. As at the Latest Practicable Date, the shareholding of Mr. Meng in the Company is as follows:

Number of Shares	Capacity	Approximate percentage of interests in the issued share capital of the Company as at the Latest Practicable Date
799,560 (L)	Beneficial owner	1.30%
44,450,619 (L)	Interest of controlled corporation (<i>Note (a)</i>)	72.23%
387,351 (L)	Share Options	0.63%

Note:

- (a) 44,450,619 Shares are held by CHG as long position. The entire issued share capital of CHG is beneficially owned by Huajun Group Limited (華君集團有限公司), which is directly wholly-owned by Mr. Meng. Madam Bao, being a spouse of Mr. Meng, was also deemed to be interested in the Shares held by CHG and Mr. Meng.

The letter "L" denotes a long position in the shares.

As at the Latest Practicable Date, CHG is the substantial shareholder of the Company, holds 44,450,619 Shares, representing approximately 72.23% of the total issued share capital of the Company, and is ultimately wholly and beneficially owned by Mr. Meng. Accordingly, the Subscription Agreement constitutes a connected transaction of the Company subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the SGM. CHG, Mr. Meng and their respective associates are required to abstain from voting on the resolutions in respect of the Subscription Agreement at the SGM. To the best of the Directors' information, belief and knowledge, save for CHG, Mr. Meng and their respective associates, no other Shareholders have any material interest in the Subscription Agreement and the grant of the Specific Mandate. Mr. Meng has also abstained from voting on the resolutions passed by the Board to approve the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

9. GENERAL

The Independent Board Committee has been established to make recommendation to the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bond. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the grant of the Specific Mandate.

The SGM will be convened and held for the Independent Shareholders to consider, and if thought fit, to approve the Subscription Agreement and the grant of the Specific Mandate.

RECOMMENDATION

Having considered the above-mentioned benefits to the Group and the advice of the Independent Financial Adviser, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement are on normal commercial terms and the issue of Convertible Bond under Specific Mandate are in the interests of the Company and the Shareholders as a whole and they are fair and reasonable to the Company. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders and the Independent Shareholders (as the case may be) to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription Agreement the transactions contemplated thereunder and the grant of the Specific Mandate.

SGM

A SGM will be convened will be held on Thursday, 21 May 2020 at 3:00 p.m. at Conference Room, 36/F, Champion Tower, 3 Garden Road, Central, Hong Kong, during which resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve, among other matters, the Subscription and the transactions contemplated thereunder including the and the grant of Specific Mandate to allot and issue the Conversion Shares.

The notice of the SGM is set out in the Appendix IV of this circular. A form of proxy for use at the SGM is enclosed. Whether or not the Shareholders are able to attend the SGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the SGM or any adjournment thereof should the Shareholders so wish.

LETTER FROM THE BOARD

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure the chairman of the SGM to demand for voting on poll in respect of the ordinary resolution to be proposed at the SGM in accordance with the memorandum of association and the bye-laws of the Company and Union Registrars Limited, the branch share registrar of the Company in Hong Kong, will serve as the scrutineer for the vote-taking.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 18 May 2020 to Thursday, 21 May 2020 (both dates inclusive), for the purpose of determining the entitlements of the Shareholders to attend and vote at the SGM. No transfer of the Shares will be registered during this period. Shareholders whose names appear on the register of members of the Company on Monday, 18 May 2020 shall be entitled to attend and vote at the SGM. In order to qualify to attend and vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King' Road, North Point, Hong Kong not later than 4:00 p.m. on Friday, 15 May 2020.

ADDITIONAL INFORMATION

Your attention is drawn to the (1) letter from the Independent Board Committee set out in the Appendix I of this circular and (2) letter of advice from the Independent Financial Adviser set out in the Appendix II of this circular, which contains among other matters, its advice to the Independent Board Committee and the Independent Shareholders in connection with the Subscription Agreement and the transactions contemplated thereunder (including the grant of Specific Mandate to allot and issue of the Conversion Shares) and the principal factors considered by it in arriving at its recommendation.

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

Shareholders and potential investors should note that completion of the Subscription Agreement is subject to fulfillment of the Conditions. As the Subscription may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

Yours faithfully,
By Order of the Board
Huajun International Group Limited
TAM Ka Lung
Company Secretary

**HUAJUN INTERNATIONAL GROUP LIMITED****華君國際集團有限公司***(Incorporated in Bermuda with limited liability)***(Stock Code: 377)**

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of
business in Hong Kong:*
36/F, Champion Tower
3 Garden Road
Central
Hong Kong

29 April 2020

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION —
ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE**

We refer to the circular dated 29 April 2020 of the Company to the Shareholders (the “Circular”), of which this letter forms part. Capitalised terms used herein shall have the same meaning as those defined in the Circular unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Subscription Agreement and the transactions contemplated thereunder including the grant of the Specific Mandate, and to advise the Independent Shareholders as to whether the terms of Subscription Agreement and the transactions contemplated thereunder, including and the grant of the Specific Mandate are fair and reasonable so far as the Independent Shareholders are concerned.

Upon taking into account the recommendation of the Independent Financial Adviser, we consider that the Subscription Agreement, the transactions contemplated thereunder and the issuance of the Convertible Bond under the Specific Mandate are on normal commercial terms or better and in the ordinary and usual course of business of the Group, in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Subscription Agreement, the transactions contemplated thereunder and the issuance of the Convertible Bond under the Specific Mandate.

Yours faithfully,

Zheng Bailin

*Independent
Non-executive Director*

Shen Ruolei

*Independent
Non-executive Director*

Pun Chi Ping

*Independent
Non-executive Director*

Set out below is the text of a letter received from Shinco Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and issue of Convertible Bond for the purpose of inclusion in this circular.



Shinco Capital Limited
Room 1902, 19/F
Yue Shing Commercial Building
15 Queen Victoria Street
Central
Hong Kong

29 April 2020

*To: The Independent Board Committee and the Independent Shareholders of
Huajun International Group Limited*

Dear Sirs,

CONNECTED TRANSACTION – ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription of the Convertible Bond, details of which are set out in the letter from the Board ("**Letter from the Board**") contained in the circular dated 29 April 2020 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 22 January 2020 (after trading hours), the Company entered into the Subscription Agreement with CHG, pursuant to which the Company conditionally agreed to issue and CHG conditionally agreed to subscribe for the Convertible Bond in the principal amount of HK\$1,000,000,000 at the Issue Price. Completion of the Subscription Agreement is conditional upon, among other, the granting of the listing of, and permission to deal in, the Conversion Shares by the Listing Committee of the Stock Exchange and the approval by the Independent Shareholders at the SGM.

As at the Latest Practicable Date, CHG is the substantial shareholder of the Company which holds 44,450,619 Shares, representing approximately 72.23% of the total issued share capital of the Company, and is ultimately wholly and beneficially owned by Mr. Meng. Accordingly, the entering into of the Subscription Agreement constitutes a connected transaction of the Company subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the SGM. CHG, Mr. Meng and their respective associates are required to abstain from voting on the resolutions in respect of the Subscription Agreement at the SGM. To the best of the Directors' information, belief and knowledge, save for CHG, Mr. Meng and their respective associates, no other Shareholders have any material interest in the Subscription Agreement and the grant of the Specific Mandate. Mr. Meng has also abstained from voting on the resolutions passed by the Board to approve the Subscription Agreement and the transactions contemplated thereunder.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Zheng Bailin, Mr. Shen Ruolei and Mr. Pun Chi Ping, has been established to advise the Independent Shareholders on (i) whether the terms of the Subscription Agreement and the Convertible Bond are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscription and the issue of Convertible Bond are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Company; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Subscription Agreement, the transactions contemplated thereunder and the issuance of the Convertible Bond at the SGM. We, Shinco Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst others, (i) the Subscription Agreement; (ii) the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**"); (iii) the unaudited Annual Results of the Company for the year ended 31 December 2019 (the "**2019 Annual Results**"); and (iv) the information and facts contained or referred in the Circular. We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and the management of the Company (the "**Management**"). We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Management, which have been provided to us. We have also sought and received confirmation from the

Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or its respective subsidiaries or associates. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

During the past two years, save for (i) this appointment as the independent financial adviser in respect of the Subscription; and (ii) the previous appointment as the independent financial adviser to the independent board committee of the Company in respect of a connected transaction for the issue of convertible bond under specific mandate as set out in the circular of the Company dated 11 November 2019, we have no other engagements with the Company or any other parties that could reasonably be considered to affect our independence in performing the duties as set out in the Listing Rules, or might reasonably give rise to a perception that our independence would be so affected. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser and the previous appointment as mentioned above, no arrangements existed whereby we received or will receive any fees or benefits from the Company, CHG or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Subscription and the issue of Convertible Bond, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

Information on the Company

Huajun International Group Limited is an investment holding company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited.

The principal activities of the Group are: (i) sale and manufacturing of high quality multi-colour packaging products, carton boxes, books, brochures and other paper products; (ii) trading and logistics; (iii) provision of financial services; (iv) property development and investments; and (v) manufacturing, processing and sales of photovoltaic products.

Financial information of the Group

Set out below is a summary of the financial information of the Group (i) for the year ended 31 December 2019 as extracted from the 2019 Annual Results, and (ii) for the 9-month period ended 31 December 2018 (from 1 April 2018 to 31 December 2018) and the year ended 31 March 2018 (from 1 April 2017 to 31 March 2018) as extracted from the 2018 Annual Report.

The Company has changed its financial year end from 31 March to 31 December to align its financial year end date with that of its principal subsidiaries in the PRC. Thus, Shareholders are advised that the financial information for the 9-month period ended 31 December 2018 may not be entirely comparable with that for the financial years ended 31 December 2019, and 31 March 2018 which cover a 12-month period.

APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December 2019 (RMB'000) (Unaudited)	For the nine months ended 31 December 2018 (RMB'000) (audited)	For the year ended 31 March 2018 (RMB'000) (audited)
Revenue			
Printing	670,189	551,540	658,104
Trading and Logistics	2,203,718	1,910,464	2,367,239
Property Development and Investment	775,424	104,916	52,952
Solar Photovoltaic	92,663	69,941	760,247
Financial Services	7,565	12,624	47,301
Others	48,447	–	35,758
Total revenue	3,798,006	2,649,485	3,921,601
 Profit/(loss) attributable to owners of the Company for the financial year	 (620,706)	 (396,111)	 (928,455)
	As at 31 December 2019 (RMB'000) (Unaudited)	As at 31 December 2018 (RMB'000) (audited)	As at 31 March 2018 (RMB'000) (audited)
Current assets	9,328,612	8,057,673	4,985,601
Current liabilities	8,277,973	9,715,215	5,768,163
Net current assets/ (liabilities)	1,050,639	(1,657,542)	(782,562)
Total liabilities	14,916,965	13,131,815	9,083,035
Total assets	17,655,495	15,762,535	11,764,556
Net asset value	2,738,530	2,630,720	2,681,521
Equity attributable to the Shareholders	2,670,737	2,568,211	2,536,802
Bank balances and cash	270,836	701,946	255,113
Pledged bank deposits	313,265	285,634	262,823

For the 9-month period ended 31 December 2018

For the 9-month period ended 31 December 2018, the Group recorded revenue of approximately RMB2,649.49 million, representing a decrease of approximately 32.44% as compared to revenue of approximately RMB3,921.60 million for the year ended 31 March 2018. As stated in the 2018 Annual Report, the overall decrease in revenue was mainly due to the decrease in revenue generated from the solar photovoltaic business.

For the 9-month ended 31 December 2018, majority of the revenue was generated from the trading and logistics that contributed revenue of approximately RMB1,910.46 million, representing approximately 72.11% of total revenue while the figures for the year ended 31 March 2018 are approximately RMB2,367.24 million and 60.36% respectively.

For the 9-month period ended 31 December 2018, the Group recorded a net loss of approximately RMB396.11 million, representing a decrease of approximately 57.34% as compared to net loss of approximately RMB928.46 million for the year ended 31 March 2018.

For the year ended 31 December 2019

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB3,798.01 million, representing a significant increase of approximately 43.35% as compared to revenue of approximately RMB2,649.49 million for the 9-month period ended 31 December 2018. The overall increase in revenue was mainly contributed by the significant increase in revenue generated from the Property development and investments business, from approximately RMB104.9 million for the 9-month ended 31 December 2018 to approximately RMB775.4 million in 2019.

For the year ended 31 December 2019, majority of the revenue was generated from the trading and logistics that contributed revenue of approximately RMB2,203.72 million, representing approximately 58.02% of total revenue, while the figures for the 9-month ended 31 December 2018 are approximately RMB1,910.46 million and 72.11% respectively.

For the year ended 31 December 2019, the gross profit significant increased from approximately RMB83.92 million for the 9-month ended 31 December 2018 to that of approximately RMB309.20 million in 2019. Though there was significant improvement in revenue and gross profit for the year ended 31 December 2019, the Group recorded increased loss, from approximately RMB396.11 million for the 9-month period ended 31 December 2018 to that of approximately RMB620.71 million for the year ended 31 December 2019, representing an increase of approximately 56.70%. It is noted that such increase in loss was mainly due to (i) the no reversal of impairment loss for financial guarantee contract in 2019; and (ii) the finance cost, which is the major cost of the Group, increased from approximately RMB444.25 million for the 9-month ended 31 December 2018 to approximately RMB572.25 million for the financial year ended 31 December 2019.

According to the 2019 Annual Results, the current assets as at 31 December 2019 amounted to approximately RMB9,328.61 million, comprising mainly properties held for sale of approximately RMB7,424.18 million, trade and other receivables, and prepayments of approximately RMB987.03 million, pledged bank deposits of approximately RMB313.27 million and bank balances and cash of approximately RMB270.84 million. While the current liabilities of the Group as at 31 December 2019 amounted to approximately RMB8,277.97 million comprising mainly borrowings of approximately RMB4,710.72 million, contract liabilities of approximately RMB1,513.56 million, and trade and other payables, and other liabilities of approximately RMB1,193.83 million.

The Group is in net current assets of approximately RMB1,050.64 million as at 31 December 2019, improved from a net current liabilities position as at 31 December 2018. However, the cash ratio, which is the ratio of cash and cash equivalent to the current liabilities, remains very low at 0.03 time as at 31 December 2019 and that the total borrowings to total assets increased from 0.30 time as at 31 December 2018 to 0.57 time as at 31 December 2019. On 30 March 2020, the Company issued a supplemental announcement to the 2019 Annual Results that it is expected that the auditor's report to be issued for the financial year ended 31 December 2019 shall contain a paragraph relating to "Material Uncertainty Related to Going Concern". As set out in the Letter from the Board, the Board considers that this is largely due to the Group's capital commitments, relatively high gearing ratio and certain portion of property assets which may not be realized into cash within a short period of time.

We consider that the Subscription, if materialised, will provide readily available cash of HK\$999.5 million to the Group, this will surely improve the liquidity and cash flow position of the Group as (i) through the settling of interest bearing bank loans by part of the proceeds (i.e. HK\$537.6 million), there will be reduction in liabilities and future interest payment and thus reserving more cash for the Company; (ii) the financing source for the initial stage of the Liuhe Project development is determined, thus the Group would not need to seek for other financing methods, such as bank loan or internal resources; (iii) the increase in cash of HK\$293.9 million will be readily available for meeting future need for general working capital. As set out in the Letter from the Board, the cash to total assets ratio before and after the Subscription are 1.53% and 6.27% respectively.

2. Information on the connected persons

As at the Latest Practicable Date, CHG holds 44,450,619 Shares, representing approximately 72.23% of the total issued share capital of the Company, and is ultimately wholly and beneficially owned by Mr. Meng. Mr. Meng, who also holds directly 799,560 Shares, is the chairman of the Company and an executive Director. Accordingly, CHG is a connected person of the Company under the Listing Rules. As at the Latest Practicable Date, CHG is also the holder of (i) the convertible bond in the principal amount of HK\$1,000,000,000 with the conversion price of HK\$38 per Share, convertible into 26,315,789 Conversion Shares, and (ii) the convertible bond in the principal amount of HK\$205,200,000 with the conversion price of HK\$38 per Share, convertible into 5,400,000 Conversion Shares.

3. Reasons for the Subscription and the issue of Convertible Bond

As set out in the Letter from the Board, the Board has considered other alternative equity fund raising means including placing of new shares, rights issue or open offer. The Board considers that rights issue or open offer might incur costly underwriting commission. To obtain the best available terms of the Convertible Bond, the Board approached two potential subscribers, however the Board decided that CHG was the best subscriber because the potential subscribers requested for an interest rate of over 10% per annum and with a shorter maturity period of 1-2 years, as well as lengthy due diligence procedures to be carried out by the other potential subscribers. For placing of new shares, the Company would incur 2% commission for placement of new shares and it is difficult for the Company to find investors for subscription of new shares of the Company given the historical trend of the Company's share price and the current market situation. While rights issue or open offer will have uncertain response from existing shareholders, if public shareholders do not subscribe new shares, and only CHG to subscribe, money raised will be limited in order to maintain the public float of 25% and the process would be relatively time-consuming as the Board estimates that it might take approximately 4 to 6 months. With regard to the placing of new shares, it might be difficult for the Board to locate placee(s) who are willing to invest in large sum given the current fluctuation of the stock market and global financial conditions. To explore alternative debt financing methods, the Company has approached two financial institutions, and conducted preliminary discussions with them, who indicated an interest rate of over 10% per annum as well as provision of collateral, therefore, the Company was of the view that these terms were not favourable to the Company compared to the terms of the proposed issue of convertible bonds to CHG. In light of the above, the Board considers that it is unlikely that the Group could secure a committed placee with favorable terms in a short period of time.

As set out in the Letter from the Board, the Company has considered alternative debt financing. However, the use of debt financing may (i) create immediate additional interest burden to the Group, which might affect the Group's financial performance; (ii) involve provision of security; (iii) subject to, including but not limited to, lengthy due diligence exercise due to investigation by the lending banks on pledged assets, if required, and negotiations with the banks with regards to the Group's financial position and capital structure; and (iv) the then prevailing stock market condition, the Directors consider that debt financing might be uncertain and time consuming compared with the issue of Convertible Bond to CHG for financing of the operation of the Company.

We consider that equity fund raising, such as a placement or rights issue of new shares, would likely be conducted at a discount to the market price under current poor market sentiment. Furthermore, trading of the Shares did not appear to be active during the past six months, which may indicate difficulty to pursue sizeable equity financing alternatives in the stock market and such equity fund raising will have inevitable immediate dilution effect on the shareholding interests of the existing Shareholders.

As to debt financing, it is noted that as at 31 December 2019, the total liabilities of the Group are approximately RMB14,917.0 million, representing approximately 84.49% of the total assets of the Group. Finance costs of the Group amounted to RMB444.3 million and RMB572.3 million for the 9-month period ended 31 December 2018 and the year ended 31 December 2019 respectively, and has been the major operating cost item. Thus further fund raising by loan would further increase the interest cost burden of the Company.

Subsequent to the entering into of the Subscription Agreement, there are the outbreak of Novel Coronavirus (COVID-19), the global financial market is badly affected and market sentiment is poor, thus the Subscription would be crucial for the Company to satisfy its imminent funding needs.

As set out in the Letter from the Board, Mr. Meng, through CHG and/or his other associates, has from time to time provided interest free and unsecured financial assistance to the Company. Although the allotment and issue of Conversion Shares might dilute the shareholding interests of the existing public Shareholders in future, which may be seen as a disadvantage to the existing Shareholders, the collective shareholding in the Company held by Mr. Meng, CHG and their respective associates shall never reach more than 75% as the Conversion Rights are subject to Conversion Restrictions.

Having considered that (i) other equity financing alternatives such as placing, rights issue or open offer may be lack of market demand as mentioned above, and will have inevitable immediate dilution effect on the shareholding interests of the existing Shareholders; (ii) debt financing would be time consuming and would not relieve the Group's gearing ratio and profitability; and (iii) the Conversion Price of the Convertible Bonds will be issued at high premium to the existing share price and subject to the Conversion Restrictions; we concur with the Board that the issuance of the Convertible Bond to CHG was the best available terms obtained on a best effort basis, and we consider that fund raising through the Subscription is reasonable.

4. Use of proceeds

The net proceeds from the Subscription will be approximately HK\$999.50 million and are expected to be used with details as follow:

Use of proceeds	Approximate amount (HK\$ million)	%	Expected timing
(i) Repayment of borrowings	537.60	53.79%	First half of 2020
(ii) Liuhe Project–capital expenditure for high-end printing and packaging production base in Jiangsu	168.00	16.81%	Second half of 2020 to first half of 2021
(iii) General working capital (<i>Note</i>)	<u>293.90</u>	<u>29.40%</u>	First half of 2020
Total:	<u>999.50</u>	<u>100%</u>	

Note:

General working capital of HK\$293,900,000 is expected to be used by the Company's property development and investment business of approximately HK\$201.6 million for the operations and construction of the Company's various property projects under constructions in Shanghai, Dalian, Wuxi and Yingkou, and approximately HK\$59.4 million working capital for the Company's solar photovoltaic business and remaining HK\$32.9 million working capital for the Company's head office including staff salaries, office rental, professional fees and finance costs.

Substantial portion of the proceeds of HK\$537.6 million would be applied toward the repayment of part of a bank loan (the loan amounting to RMB1,440 million in total). We have requested and reviewed the relevant loan documents for loan repayment. As set out in the Letter from the Board and the relevant loan documents, substantial part of the loan has already fall due, in which RMB480 million was originally due in September 2019 and the rest were originally due in 4 equal payments of RMB240 million in December 2019, March 2020, June 2020 and September 2020. Thus, the Group has immediate need to settle the loan with bank. Further, this loan was provided on an interest rate of 10% p.a.. Thus the nil interest rate of the Convertible helps relieving the immediate pressure from loan repayment together with the interest burden and provide immediate financing for its needs in business development. As the loan is fall due/will be fall due soon, we consider it is justifiable for the Company to conduct the Subscription and use the proceeds to repay the loan. As set out in the Letter from the Board, as at the Latest Practicable Date, no penalty has been imposed on the Group for the late repayment of loan.

As set out in the Letter from the Board, the Group is negotiating with the bank for extending the repayment date for the RMB1,440 million bank loan to September 2022. According to the 2019 Annual Results, there are borrowings falling due before 31 December 2020 of approximately RMB4,710 million. In the event the loan extension is agreed, the net proceeds would be used for repaying other loans. In view that (i) even if the RMB1,440 million loan is extended, the Group will still having need for repaying, or subject to negotiation, renewing of bank loan of more than RMB3,200 million, (ii) the ongoing burden from the heavy interest expenses of the Group, we consider that applying HK\$537.6 million for repaying other loans is also justifiable.

The Liuhe Project related to the setting up of high-end printing and packaging production based in Liuhe Economic Development Zone* (六合經濟開發區) in the PRC by its indirect wholly owned subsidiary. As advised by the Management, the expected capital expenditure for the Liuhe Project is approximately RMB282 million (equivalent to approximately HK\$316 million). The Company proposes to apply (i) RMB150 million (equivalent to approximately HK\$168 million) of the proceeds from the Subscription to finance the capital expenditure needed in the initial stage of development in 2020, such funding need is required from the second half of 2020 to first half of 2021; and (ii) the remaining RMB132 million (equivalent to approximately HK\$148 million) is expected to be funded by internal sources and/or new external borrowings from banks, and the expected timing would depend on the then situation, such as market demand and the production capacity.

We have discussed with the Company and concur that the Liuhe Project are in line with the business development strategy of the Group in strengthening its presence of the printing segments in the PRC. As such we consider the intended use of proceeds for developing these projects is justifiable.

The Group also intends to apply HK\$293.9 million as general working capital, of which (i) approximately HK\$201.6 million for the operations and construction of various property projects under constructions in Shanghai, Dalian, Wuxi and Yingkou; (ii) approximately HK\$59.4 million for the solar photovoltaic business; and (iii) the remaining of HK\$32.9 million for the head office including staff salaries, office rental, professional fees and finance costs. In this regard, we have requested and reviewed (a) the working capital forecast of the Group for the period for the next 12 months period; (b) the contract for the payment of properties development cost which is already due; (c) the ongoing cost item of the head office, such as the monthly rental and management fee and the salary which contribute majority of the head office cost; and (d) the working capital budget of the solar business, which we understand that most of the funding need are for the fixed monthly interest payments of loan and for the payment of part of the bank loans, thus we have reviewed the relevant loan documents. Having considered the low level of cash of the Company and the funding requirement stated above, we consider that the intended uses of proceeds for these general working capital are justifiable.

5. Equity fund raising activities in the past 12-month period immediately preceding the date of the Announcement and up to the Latest Practicable Date

During the past 12 months immediately preceding the date of the Announcement and up to the Latest Practicable Date, the Company has conducted the following equity fund raising activities:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
16 August 2019	Proposed issue of convertible bonds under specific mandate	Approximately HK\$999,500,000	Intended for repayment of loan, business development and general working capital	Not applicable as the transaction was lapsed on 31 December 2019

6. Funding need for the 12 months ending 31 March 2021

Based on current information and assuming no unforeseen circumstances, the working capital requirements of the Company for 12 months ending 31 March 2021 amounted to a total of approximately RMB5,603.1 million include (i) bank loans repayable in the sum of approximately RMB3,552.2 million and interest of RMB790.4 million that will be matured within the next 12 months; (ii) corporate bonds repayment and convertible bonds of RMB248.6 million that will be matured within the next 12 months; (iii) property development costs in the sum of RMB905.0 million; and (iv) part of the capital expenditure for the Liuhe Project in the sum of RMB107.1 million.

As set out in the Letter from the Board, the above working capital requirements are expected to be financed by the (i) operating cash flow generated by the Company in the next 12 months in the sum of RMB2,529.2 million (45.1%), which is expected to be generated from the pre-sale of properties in the next 12 months; (ii) refinancing of existing borrowings in the sum of RMB1,581.0 million (28.2%), which shall be negotiated on a case by case basis, as at the Latest Practicable Date, all of the bank loans which the Company intended to refinance can be renewed at maturity; (iii) advance from the immediate holding company of RMB600 million (10.7%); and (iv) the proposed issue of Convertible Bond in the sum of RMB892.9 million (16.0%). To the best knowledge of the Company, the Company believes that it will have sufficient funds to meet its working capital requirement for 12 months ending 31 March 2021 taking into account of the proceeds from the Subscription.

At our request, the Company has provided us with its cash flows forecast for the next 12 months from the Latest Practicable Date. We have reviewed such cash flow budget and we agree with the Company that after taking into account (i) the Group's internal financial resources, and cash flows from its operations; (ii) the estimated proceeds from the Subscription; and (iii) the credit facility from the Shareholders, the Group will have sufficient working capital for at least the next 12 months. As set out in the Letter from the Board, as at the Latest Practicable Date, the Company does not have any plan or intention to conduct any equity fund raising activities in the next 12 months.

In light of the Group's limited cash resources and current financial condition, the funding need of the Group to repay the bank borrowing and develop its businesses, we consider that the issue of the Convertible Bond and the Company's intended use of relevant net proceeds are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. Principal terms of the Subscription Agreement and the Convertible Bond

Set out below is a summary of the principal terms of the Convertible Bond:

Issuer:	the Company
Principal Amount:	HK\$1,000,000,000
Conversion Price:	HK\$38.00 per new Share, subject to adjustment
Maturity Date:	the date falling on the fifth anniversary from the date of issue of the Convertible Bond
Interest:	interest-free
Redemption:	<i>At Maturity</i>

all outstanding principal amount of the Convertible Bond which have not been converted in accordance with the conditions set out in the Instrument by the Maturity Date will be automatically redeemed by the Company on the Maturity Date at a redemption amount equal to 100% of the principal amount of such Convertible Bond, unless the Bondholders request for full conversion of their Convertible Bond

The Company does not have any early redemption right for the Convertible Bond.

Conversion Rights:	each Bondholder shall have the right, exercisable during the Conversion Period, to convert the whole or any part (in multiples of HK\$1,000,000) of the outstanding principal amount of the Convertible Bond held by such Bondholder into Shares
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Conversion Restrictions:	Conversion shall be subject to the following further conditions:
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- (a) any exercise of Conversion Rights shall not trigger any mandatory offer under Rule 26 of the Takeovers Code, and in any event, any exercise of Conversion Rights shall not render the Company no longer maintain the minimum public float of the Shares required under the Listing Rules upon the Conversion;

- (b) any exercise of Conversion Rights shall be subject to all applicable laws, rules and regulations, including but not limited to the Listing Rules and the Takeovers Code; and
- (c) any conversion shall be in denominations and integral amounts of HK\$1,000,000.

The above restrictions are collectively referred to as the “Conversion Restrictions”.

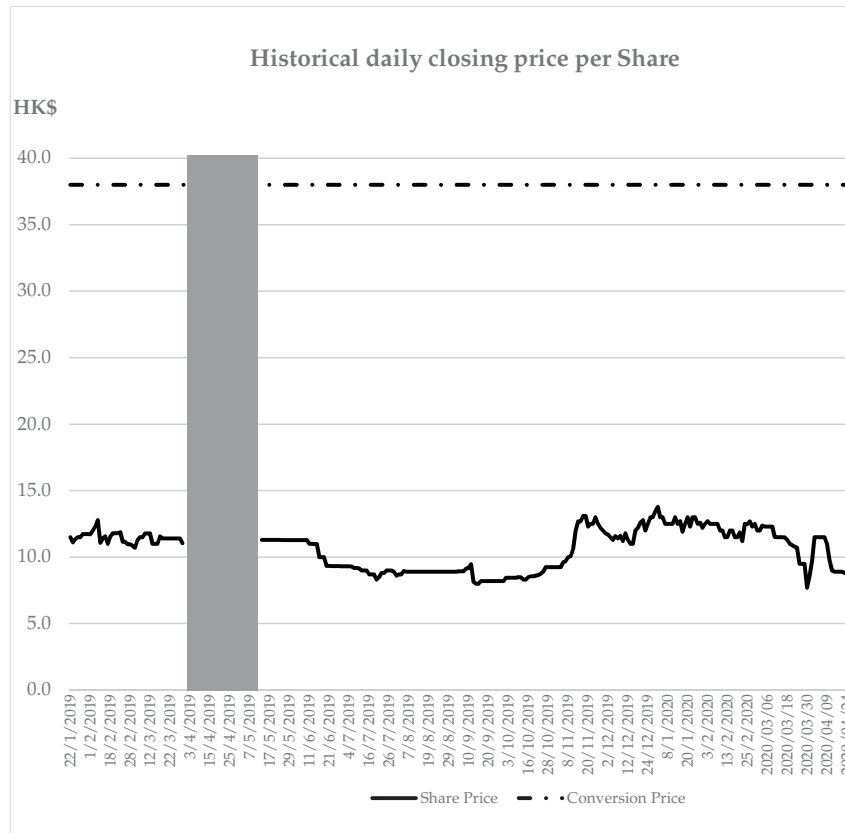
The minimum public float required under the Listing Rules is 25%.

- Transferability: the Convertible Bond (nor any part thereof) can be transferred without the prior written consent of the Company, save and except to a connected person of the Company
- Ranking: the obligations of the Company arising under the Convertible Bond constitute general, unsecured and unsubordinated obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law. Conversion Shares, when issued, shall rank pari passu in all respects with all other existing Shares in issue at the date of conversion
- Voting Rights: the holders of the Convertible Bond will not be entitled to attend or vote at any meetings of the Company.
- Adjustment Event: the Conversion Price shall be subject to adjustment upon occurrence of the following:
- (a) consolidation and subdivision; and
 - (b) capitalisation of profits or reserves

For further details of the terms of the Convertible Bond, please refer to the Letter from the Board.

Comparison of the Conversion Price and historical daily closing price of the Share

In order to assess the fairness and reasonableness of the Conversion Price, we have reviewed the daily closing price of the Shares, commencing from 22 January 2019, being approximately one year period prior to the date of the Subscription Agreement and up to and including the Latest Practicable Date (the “**Review Period**”), which is commonly used for analysis purpose.



Note: trading in the Shares was suspended from 1 April 2019 to 13 May 2019.

As illustrated in the above chart, the Conversion Price is above the Share price throughout the entire Review Period and the difference between them has been maintained at least HK\$24.0 during the entire Review Period. The Conversion Price represents (i) a premium of approximately 175.76% over the highest closing price of HK\$13.78 per Share as at 2 January 2020; (ii) a premium of 393.51% over the lowest closing price of HK\$7.7 per Share as at 30 March 2020; and (iii) a premium of 258.49% over the average closing price of HK\$10.60 per Share during the Review Period. The Conversion Price represents a premium of approximately 341.86% over the closing price of HK\$8.6 on the Latest Practicable Date.

APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER
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The Conversion Price represents a discount of approximately 21.81% to the unaudited net asset value of the Company as at 31 December 2019 of approximately HK\$48.60 per Share. It is noted that the Shares had been consistently traded at a relatively high discount to the net asset value per Share.

Trading volume analysis

Set out below are the average daily trading volume of the Shares during the Review Period.

	Number of trading days	Average daily trading volumes (approximately)	Average daily trading volumes over the issued Share capital of the Company (Note 3) (approximate %)
2019			
January (Note 1)	8	4,905	0.00808%
February	17	1,929	0.00318%
March	21	1,240	0.00204%
April (Note 2)	0	0	0%
May (from 14 May)	14	23	0.00004%
June	19	76	0.00012%
July	22	1,047	0.00173%
August	22	276	0.00046%
September	21	131	0.00021%
October	21	259	0.00042%
November	20	1,706	0.00277%
December	20	2,088	0.00339%
2020			
January	20	2,442	0.00397%
February	20	282	0.00046%
March	22	655	0.00106%
April	16	1,530	0.00249%

Note 1: From 22 January 2019 to end of January 2019.

Note 2: trading in the Shares was suspended from 1 April 2019 to 13 May 2019.

Note 3: based on the number of issued Shares at the end of each month or the Latest Practicable Date for April 2020

As illustrated above, trading liquidity of the Shares was thin during the Review Period, with the average daily trading volumes of the Shares having accounted for a range from approximately 0.00004% to approximately 0.00808% of the issued Share capital of the Company. The average daily trading volumes was extremely low in May 2019 and June 2019, it is noted that there were only 2 and 3 trading days with turnover during the months respectively.

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

In order to assess the fairness and reasonableness of the Conversion Price, interest rate and terms of the Convertible Bond, we have reviewed transactions of issue of convertible bonds/notes under specific mandate for fund raising announced by companies listed on the Stock Exchange (excluding the issue of A share convertible bond and perpetual convertible bond) between August 2019 and January 2020, being a 6-month period before and including January 2020 in which the Subscription Agreement was entered. We consider that the half-year timeframe is fair and reasonable as it provides a general reference for the market practice in relation to the key terms of the Convertible Bond under similar market condition prevailing at the time of entering into the Subscription Agreement. To the best of our knowledge and as far as we are aware of, we have identified 11 comparable transactions which met the said criteria (the “**Comparable Issues**”). We consider that the Comparable Issues can provide a reference on the issue of shares of similar nature (i.e. issue of convertible securities) given that (i) the Comparable Issues are carried out under specific mandates, which is identical to the way the Convertible Bond will be issued; (ii) the Comparable Issues are, to our best knowledge, exhaustive cases and thus are representative to the overall relevant market sentiments in recent times; and (iii) there are sufficient number of Comparable Issues, we are of the view that a comparable analysis conducted with reference to the Comparable Issues would be meaningful and comprehensive and that our criteria for identifying Comparable Issues is fair and reasonable.

The Comparable Issues listed below are based on the above criteria and they are fair and representative samples, which represent a full and exhaustive list of relevant comparable issues based on the aforementioned criteria. It should be noted that all the subject companies involved in the Comparable Issues may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and the circumstances leading to the subject companies to proceed with the issues of convertible bonds/notes under specific mandate may also be different from that of the Company.

APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table sets forth the relevant details of the Comparable Issues:

Date of the announcement	Company name	Stock code	Interest rate per annum %	The premium/(discount) of the conversion price over/to closing price per share on the last trading day prior to/on the date of the relevant announcement/ agreement %	The premium/(discount) of the conversion price over/to average closing price per share on the last 5 trading day priors to/on the date of the relevant announcement/ agreement %	Term Month(s)
19/8/2019	National Arts Entertainment and Culture Group Limited	8228	1.00	166.99 (Note 1)	171.74 (Note 1)	60
10/9/2019	Asia Television Holdings Limited	707	6.00	85.19	72.41	36
9/10/2019	China Touyun Tech Group Limited	1332	8.00	(7.69)	(2.91)	24
15/10/2019	Ban Loong Holdings Limited	30	3.00	(0.77)	0.00	24
31/10/2019	Pacific Basin Shipping Limited	2343	3.00	31.87	36.36	Approximately 60
10/11/2019	BC Technology Group Limited	863	5.00	17.10	43.33	Approximately 12
28/11/2019	Mongolia Energy Corporation Limited	276	3.00	11.10	15.40	60
29/11/2019	Shougang Concord International Enterprises Company Limited	697	0.00	(13.04)	(15.25)	24
12/1/2019	Merdeka Financial Group Limited	8163	0.00	(8.33)	0.00	36
13/1/2019	Best Food Holding Company Limited	1488	0.00	7.27	9.87	60 (Note 2)
23/1/2020	Wai Chun Bio-Technology Limited	660	4.00	(7.43)	(9.50)	36
		Max	8.00	85.19	72.41	60.00
		Min	0.00	(13.04)	(15.25)	12.00
		Average	3.00	11.53	14.97	39.27
		Median	3.00	3.25	4.94	36.00
22/1/2020	The Company	377	0.00	192.31	204.49	60

Note 1:

The premiums of the conversion price of National Arts Entertainment and Culture Group Limited appear to be extreme outlier as compared to the rest of the Comparable Issues and are excluded from our analysis of conversion price.

Note 2:

The term of the convertible bond for Best Food Holding Company Limited could, subject to the agreement of the bondholders, be extended to 84 months. We use 60 months for comparison propose.

Conversion Price

As demonstrated in the above table, we noted that the premium/(discount) of the conversion price over/to the closing price of the respective shares on the respective last trading day of the Comparable Issues ranged from a discount of approximately 13.04% to a premium of approximately 85.19%, with the average and median of approximately 11.53% premium and 3.25% premium. The Conversion Price represents a premium of approximately 192.31% over the closing price on the Last Trading Day, is significantly higher than all the Comparable Issues (except for the outlier). The premium/(discount) of the conversion price over/to the average closing price for the respective last five trading days of the respective shares of the Comparable Issues ranged from a discount of approximately 15.25% to a premium of approximately 72.41%, with the average and median of approximately 14.97% premium and 4.94% premium. The Conversion Price represents a premium of approximately 204.49% over the average closing price of last five consecutive trading days immediately prior to the date of the Subscription Agreement and including the Last Trading Day, which is significantly higher than all the Comparable Issues (except for the outlier).

We consider that using the conversion prices to market prices is a fair and reasonable approach in our analysis as it reflects the fair value of the Shares under the market conditions and other factors and is a more prevailing factor in determining the fairness and reasonableness of the Conversion Price. Thus, we do not make comparable analysis of the conversion price with the net asset value.

Taking into account that (i) the Conversion Price is higher than the historical closing price per Share throughout the Review Period; and (ii) the premiums of the Conversion Price over the prevailing prices of the Shares are significantly higher than the range, average and median of the Comparable Issues, thus the Conversion Price are more favourable as compared to those of the Comparable Issues so far as the Independent Shareholders are concerned, we consider that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned, and in the interest of the Company as a whole.

Interest rate

Based on the above list of the Comparable Issues, interest rates of the Comparable Issues generally ranged from nil to 8.00% per annum with an average and a median of approximately 3.00% and 3.00% per annum, respectively. The interest rate of the Convertible is nil, thus we consider that the interest rate of the Convertible Bond is fair, reasonable and in the interest of the Company and the Shareholders as a whole.

Terms

Based on the above the Comparable Issues, the terms of the Comparable Issues ranged from 12 months to 60 months, with an average and a median of approximately 39.27 and 36 months, respectively. The term of the Convertible Bond, being five years (or 60 months), is in line with the aforesaid market practice. We also note that the term of the Convertible Bond is longer than the average and median of the terms of the Comparable Issues, and in this sense, we consider that the Company is allowed more time and flexibility before needing to repay the Convertible Bond, when compared with other Comparable Issues. Accordingly, we consider that the term of the Convertible Bond of five years is fair and reasonable.

8. Possible dilution effect on the shareholding interests of the public Shareholders as a result of the Subscription

As at the Latest Practicable Date, the Company has 61,543,075 Shares in issue. Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately following the Completion and assuming full conversion of the Convertible Bond into Conversion Shares and all existing convertible bonds issued by the Company remain outstanding (“**Illustration 1**”); and (iii) immediately following the Completion and assuming full conversion of all existing convertible bonds issued by the Company having been converted into new shares of the Company (“**Illustration 2**”); assuming that there are no other changes in the share capital of the Company from the Latest Practicable Date to the Completion Date:

	As at the		Illustration 1		Illustration 2	
	Latest Practicable Date					
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Substantial Shareholder						
CHG	44,450,619	72.23%	70,766,408	80.55%	102,482,197 (Note 4)	81.34%
Mr. Meng (Note 1)	799,560	1.30%	799,560	0.91%	799,560	0.64%
Sub-total	45,250,179	73.53%	71,565,968	81.46%	103,281,757	81.98%
Holders of existing convertible bonds (Note 2)	-	-	-	-	6,411,764	5.09%
Other public shareholders (Note 3)	16,292,896	26.47%	16,292,896	18.54%	16,292,896	12.93%
Total:	61,543,075	100%	87,858,864	100%	125,986,417	100%

Notes:

1. Apart from 799,560 Shares held by Mr. Meng directly, Mr. Meng also personally holds 387,351 share options.
2. As at the Latest Practicable Date, the conversion rights attaching to the existing convertible bonds issued by the Company had yet been exercised and the existing convertible bonds have not yet been converted in new Shares.
3. Any exercise of the Conversion Rights shall not render Shares held in public hands less than the minimum public float of the Shares required under the Listing Rules (i.e. 25%).
4. Inclusive of (i) the issued convertible bond in the principal amount of HK\$1,000,000,000 with the conversion price of HK\$38 per Share, convertible into 26,315,789 Conversion Shares; and (ii) the issued convertible bond in the principal amount of HK\$205,200,000 with the conversion price of HK\$38 per Share, convertible into 5,400,000 Conversion Shares.

As shown from the above table, as at the Latest Practicable Date, Mr. Meng, through himself and CHG, holds an aggregate of approximately 73.53% shareholding interest of the Company and the public shareholders hold the remaining 26.47%. It should be noted that immediately following the Completion and assuming full conversion of the Convertible Bond into Conversion Shares and all existing convertible bonds issued by the Company remain outstanding, Mr. Meng will hold approximately 81.46% shareholding interest of the Company and public shareholders' interest in the Company will be diluted from 26.47% to 18.54%.

However, pursuant to the Conversion Restrictions, conversion shall be subject to further conditions, among others, any exercise of Conversion Rights shall not trigger any mandatory offer under Rule 26 of the Takeovers Code, and in any event, any exercise of Conversion Rights shall not render the Company no longer maintain the minimum public float (i.e. 25%) of the Shares required under the Listing Rules upon the conversion, the collective shareholding in the Company held by Mr. Meng, CHG and their respective associates shall never reach more than 75%. Given the Conversion Restrictions and the significant premium of the Conversion Price over the prevailing share price on the date of the Subscription Agreement, the Subscription represents immediate funding to the Company without immediate shareholding dilution to the existing Shareholders.

Considering (i) the reasons for and benefits of the Subscription (as detailed in the above section headed "3. Reasons for the Subscription and the issue of Convertible Bond"); (ii) that the terms of the Convertible Bond are fair and reasonable; and (iii) that the conversion of the Convertible Bond will be subject to the Conversion Restrictions, we are of the view that the potential dilution impact to public Shareholders as a result of the Subscription is acceptable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Subscription Agreement and the Convertible Bond are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Subscription and the issue of Convertible Bond, though are not conducted in the ordinary and usual course of business of the Company, are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Subscription and the issue of Convertible Bond contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Shinco Capital Limited
Bobby Chow **Teresa Tsang**
Managing Director *Director*

Mr. Bobby Chow is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.

Ms. Teresa Tsang is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.

RESPONSIBILITY STATEMENT

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

1. SHARE CAPITAL

Set out below are the authorised and issued share capital of the Company as at the Latest Practicable Date:

<i>Authorised</i>		<i>HK\$</i>
<u>400,000,000</u>	Shares	<u>400,000,000</u>

<i>Issued and fully paid</i>		<i>HK\$</i>
<u>61,543,075</u>	Shares	<u>61,543,075</u>

2. DISCLOSURE OF INTERESTS**Interest of Directors and Chief Executive in the Company**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares or underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Interest in the Shares of the Company

Director	Number of Shares	Capacity	Approximate percentage of interests in the issued share capital of the Company as at the Latest Practicable Date
Mr. Meng	102,482,197 (L)	Interest in controlled corporation ^(Note 1)	166.52%
	799,560 (L)	Beneficial owner	1.30%
	387,351 (L)	Share options ^(Note 2)	0.63%
Ms. Zhang Ye	274,050 (L)	Share options ^(Note 3)	0.45%
Ms. Huang Xiumei	274,050 (L)	Share options ^(Note 3)	0.45%
	3,240 (L)	Beneficial owner	0.01%
Ms. Bao Limin	274,050 (L)	Share options ^(Note 3)	0.45%
	3,600 (L)	Beneficial owner	0.01%
Mr. Zheng Bailin	38,735 (L)	Share options ^(Note 4)	0.06%
Mr. Shen Ruolei	38,735 (L)	Share options ^(Note 4)	0.06%
Mr. Pun Chi Ping	38,735 (L)	Share options ^(Note 4)	0.06%

Notes:

1. Long positions in 102,482,197 Shares are held by CHG which was wholly owned by Huajun Group Limited (華君集團有限公司), a company incorporated in Hong Kong with limited liability, which in turn was 100% beneficially owned by Mr. Meng. Mr. Meng was deemed to be interested in all Shares held by CHG by virtue of SFO. Amongst interests in 102,482,197 Shares, interests in 58,031,578 Shares arising from issue of Convertible Bond under Specific Mandate.
2. 38,735,070 share options have been granted to Mr. Meng and were subsequently consolidated into 387,351 share options. For further details of the said share options granted, please refer to the announcements of the Company dated 7 February 2017 and 5 December 2017.
3. 27,405,097 share options have been granted to each of (i) Ms. Zhang Ye, who was the Chief Investment Officer of the Company at the time of the grant of the share options; (ii) Ms. Huang Xiumei, who was a Vice President of Legal & Compliance department of the Company at the time of the grant of the share options; and (iii) Ms. Bao Limin, who was a Chief Compliance Officer of the Company at the time of the grant of the share options, prior to their appointments as Directors and were subsequently consolidated into 274,050 share options. For further details of the said share options granted, please refer to the announcements of the Company dated 7 February 2017 and 5 December 2017.

4. 3,873,500 share options have been granted to each of Mr. Zheng Bailin, Mr. Shen Ruolei and Mr. Pun Chi Ping and were subsequently consolidated into 38,735 share options. For further details of the said share options granted, please refer to the announcements of the Company dated 30 June 2015, 7 February 2017 and 5 December 2017.

The letter "L" denotes a long position in the Shares.

Interests in shares in associated corporation

Associated corporation	Director	Capacity	Number of Shares held	Percentage of interest in the capital of the associated corporation
Huajun Group Limited (華君集團有限公司) ^(Note 5)	Mr. Meng	Beneficial owner	3,000,000,000	100%

Note:

5. CHG is a wholly-owned subsidiary of Huajun Group Limited (華君集團有限公司).

As at the Latest Practicable Date, save as disclosed above, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of Shareholders	Number of Shares	Capacity	Approximate percentage of interests in the issued share capital of the Company as at he Latest Practicable Date
Madam Bao	103,669,108 (L)	Interest held by spouse ^{(Note (a))}	168.45%
CHG	102,482,197 (L)	Beneficial owner	166.52%
Huajun Group Limited (華君集團有限公司)	102,482,197 (L)	Interest of controlled corporation ^{(Note (a))}	166.52%
Mr. Meng	799,560 (L)	Beneficial owner	1.30%
	102,482,197 (L)	Interest of controlled corporation ^{(Note (a))}	166.52%
	387,351 (L)	Share Options	0.63%
Ouke Group Holdings Limited	4,559,326 (L)	Beneficial owner	7.41%

The letter "L" denotes a long position in the shares.

Note:

- (a) 102,482,197 Shares are held by CHG as long position. The entire issued share capital of CHG is beneficially owned by Huajun Group Limited (華君集團有限公司), which is directly wholly-owned by Mr. Meng. Mr. Meng was deemed to be interested in all Shares held by CHG by virtue of SFO. Amongst 58,031,578 Shares, 31,715,789 Shares involve past issuance of convertible bonds under specific mandate. For details, please refer to the announcements of the Company dated 27 June 2019 and 28 June 2019. Further, 26,315,789 Shares involve the proposed issue of Convertible Bond as set out in this circular. Madam Bao, being a spouse of Mr. Meng, was also deemed to be interested in the Shares held by Mr. Meng.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person (other than a Director or chief executive of the Company) or corporation which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

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

5. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following is the qualifications of the experts who has given opinion or advice which are contained in this circular:

Name	Qualification
Shinco Capital Limited	a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity

As at the Latest Practicable Date, the above expert has no shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and has no direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up or are proposed to be acquired or disposed of by or leased to any member of the Group.

The above expert has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion herein of its respective letter, report, advice and/or references to its respective name, in the form and context in which they respectively appear.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Although certain associates of Mr. Meng are engaged in property development and property management, which is one of the principal businesses of the Company, the said associates of Mr. Meng carries out their business in considerable distance, i.e. over 100 kilometers, from the location where the property developments of the Group are situated at. Accordingly, there is no competition rendered in between the business of the Group and the business engaged by Mr. Meng's associates. Therefore, the Board is of the view that Mr. Meng and his associates was not interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Company.

7. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors had any interest, directly or indirectly, in any asset which, since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up, had been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed in this circular, there was no contract or arrangement subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant in relation to the business of the Group.

8. LITIGATION

The Group has several outstanding legal proceedings with construction contractors, customers, suppliers, creditors and joint venture partner that against the Group in the PRC in relation to the Group's property development and investment, printing and solar photovoltaic segment. Apart from disclosed below, the directors consider that all other legal proceedings would not have significant financial impact to the Group as the corresponding claims against the Group are either not significant or not probable to have a material financial impact to the Group, based on the advice of the legal counsel.

The Group has entered into a cooperation agreement in relation to the establishment of joint venture for development of properties with an independent third party in June 2017 and based on the current assessment the cooperation is not likely to be proceed due to the failure to comply with certain urban renewal policies in Guangdong Province, the PRC and the relating project shall be terminated. Accordingly, the counterparty has raised a civil proceeding against the Group regarding the alleged breach of the cooperation agreement to claim the sum of (i) RMB50 million as the refund of deposit; and (ii) RMB80 million for breach of contract. The first hearing of the legal proceeding was held in March 2019 and a judgement has been released on 25 September 2019 in favour of the counterparty. As at the Latest Practicable Date, the Group has lodged an appeal against this decision but no hearing date has yet been fixed. The Group has sought legal advice in the PRC on the legal proceedings to assess the amount of provision required. The Directors consider the provision of RMB80 million made in the consolidated financial statements for the nine months ended 31 December 2018 is adequate. For further details of the said cooperation agreement, please refer to the announcement of the Company dated 20 June 2017.

On 2 July 2019, Bank of Ningbo Co. Ltd. Wuxi Branch (寧波銀行股份有限公司無錫分行) (“**Ningbo Bank**”) filed a claim with Jiangsu Wuxi Intermediate People’s Court* (江蘇無錫市中級人民法院) (“**Jiangsu Court**”) against Wuxi Huize Real Estate Co., Ltd.* (無錫惠澤置業有限公司) (“**Wuxi Huize**”) and Baohua Properties (China) Limited* (保華地產(中國)有限公司) (“**Baohua Properties (China)**”), which are subsidiaries of the Company, Wuxi Huize, in which it was alleged that Wuxi Huize has defaulted in payment of bank loan for an amount of RMB155,782,000. An order was granted by the Jiangsu Court to freeze and preserve certain bank balances or equivalents asset of RMB190,000,000 owned by Wuxi Huize. First hearing was held on 20 August 2019 but no judgement has been released.

On 21 July 2019, Wuxi Huize and Baohua Properties (China) filed a claim with Jiangsu Court against Ningbo Bank in which it was alleged that the Ningbo Bank has made excessive preservation of assets held by Wuxi Huize and Baohua Properties (China) exceeding the court order amount of RMB190,000,000, and causing economic losses for Wuxi Huize and Baohua Properties (China). Wuxi Huize and Baohua Properties (China) is requesting Ningbo Bank for RMB200,000,000 as compensation and to bear all related costs for the case. The hearing for the claim was held on 3 September 2019 but no judgement has been released.

In January 2020, Shanghai Yiyi (Greenland) Investment Partnership (Limited Partnership)* (上海廩溢(綠地)投資合夥企業(有限合夥)) issued and filed a statement of claim with the Shanghai Financial Court* (上海市金融法院) against Baohua Real Estate (Jiangsu) Company Limited* (保華地產(江蘇)有限公司) (“**Baohua Jiangsu**”), which is a subsidiary of the Company, in which it was alleged that Baohua Jiangsu has defaulted in payment of loan for an amount of approximately RMB169.5 million (original loan principal amount of RMB450 million of which RMB280.5 million was partially repaid). The said loan was guaranteed by (i) Mr. Meng Guang Bao, an executive Director and chairman of the Board; and (ii) the Company. As at the date of this circular, the date for the hearing of the above claim has not yet been fixed. For further details, please refer to the inside information announcement of the Company dated 28 February 2020.

As at the Latest Practicable Date, saved as disclosed above, no member of the Group was engaged in any litigation, claim or arbitration of material importance and there was no litigation, claim or arbitration of material importance known to the Directors to be pending or threatened against any member of the Group. Further, the Board confirms that the abovementioned legal proceedings do not affect the obligation of Company or Mr. Meng under the Subscription as no breach of loan covenants or immediate repayment obligations would be triggered.

9. MATERIAL ADVERSE CHANGE

On 16 August 2019, the Company issued a profit warning and announced that, based on the preliminary review of the unaudited consolidated management accounts of the Group for the six months ended 30 June 2019 (the “**Period**”), the Group is expected to record a loss attributable to equity holders of the Company for the Period as compared to a profit recorded for the six months ended 30 September 2018 (the “**Last Period**”). Based on the information available to the Board, as at 16 August 2019 such a loss for the Period was mainly due to (1) there is no reversal provision for financial guarantee contracts for the Period while a gain on reversal of provision for financial guarantee contracts of RMB223.9 million was recorded in profit or loss for the Last Period; and (2) decrease in gain on change in fair value of convertible bonds for the Period compared to the Last Period.

On 13 March 2020, the Company issued another profit warning, which was later supplemented by a supplemental announcement issued on 17 March 2020, and announce that based on the preliminary assessment of the unaudited consolidated management accounts of the Group for the year ended 31 December 2019 (“**Year 2019**”), the Group is expected to record the loss attributable to equity holders of the Company for Year 2019 is expected to be 160% or more as compared to the loss attributable to the equity holders of the Company of RMB388,926,000 for the nine months ended 31 December 2018 (the “**Last Year**”). Based on the information currently available to the Board, such an increase in loss for Year 2019 was mainly due to (1) there is no reversal provision for financial guarantee contracts for Year 2019 while a gain on reversal of provision for financial guarantee contracts of RMB261.7 million was recorded in profit or loss for the Last Year; (2) decrease in gain on change in fair value of convertible bonds for Year 2019 by approximately 90% compared to the Last Year of RMB118,374,000; and (3) increase in finance costs by approximately 25% in Year 2019 compared to the Last Year.

Save and except as the disclosure above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statement of the Group were made up.

10. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Group within the two years immediately preceding the date of this circular:

- (a) the equity transfer agreement dated 17 May 2018 entered into between New Island Printing (Liaoning) Company Limited, a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company as the purchaser and Huajun Property Limited* (華君置業有限公司) (formerly known as Huajun Enterprise (Yingkou) Company Limited* (華君實業(營口)有限公司)), a company established in the PRC with limited liability and ultimately owned as to 97% by Mr. Meng and 3% by Madam Bao as the vendor, pursuant to which the vendor has agreed to sell, and the purchaser has agreed to purchase, 100% equity interests in Yingkou Yi Hua Green Packaging Printing Company Limited* (營口益華綠色包裝印務有限公司), a company established in the PRC with limited liability for a consideration of RMB30 million;
- (b) the equity transfer agreement dated 16 July 2018 entered into between Feng Xingbo* (豐興波) and Zhao Shifu* (趙士福), citizens and businessmen in the PRC, who are Independent Third Parties, as the vendors, and Baohua Properties, as the purchaser, in relation to the acquisition of the entire equity interest of Yingkou Economic Technology Development Zone Shangfang Real Estate Limited* (營口經濟技術開發區上方房地產有限公司), a company established in the PRC with limited liability at the consideration of RMB135 million (subject to adjustment);

- (c) the equity transfer agreement dated 27 July 2018 entered into between Yingkou Jinlun Science And Technology Development Limited* (營口金綸科技發展有限公司), a company established in the PRC with limited liability and an Independent Third Party as the vendor and Huajun Power (China) Group Limited* (華君電力(中國)集團有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company as the purchaser, pursuant to which the vendor has conditionally agreed to sell, and the purchaser has conditionally agreed to purchase, the entire equity interest in Yingkou Yuzhu Science And Technology Development Limited* (營口玉珠科技發展有限公司), a company established in the PRC with limited liability, at the consideration of RMB1.00;
- (d) the acquisition agreement dated 3 August 2018 entered into between Huajun Energy Co., Ltd.* (華君能源有限公司), a company established in the PRC with limited liability and the indirect wholly-owned subsidiary of the Company, as the purchaser and Yingkou Coastal Development Construction Group Co., Ltd.* (營口沿海開發建設集團有限公司), a company established in the PRC with limited liability, as vendor, in relation to the acquisition of the land use rights of the land parcel situated at the land lot No. D2-51, Yingkou City, Liaoning Province, the PRC with total site area of approximately 1,061,349 square metres, at the consideration of RMB84,907,960;
- (e) the sale and purchase agreement dated 31 August 2018 entered into among (i) Dongguan Green Lake Villa Development Construction Co., Ltd.* (東莞市綠湖山莊開發建造有限公司), a company established in the PRC with limited liability and an Independent Third Party as the vendor; (ii) Shenyang Oriental Ginza Center Real Estate Co., Ltd.* (瀋陽東方銀座中心城置業有限公司) and Shenzhen Guangsen Investment Group Co., Ltd.* (深圳市廣森投資集團有限公司), each of which a company established in the PRC with limited liability and a shareholder of the vendor and an Independent Third Party; and (iii) Bao Hua Properties (Guangdong) Co., Ltd.* (保華地產(廣東)有限公司), a company established in the PRC with limited liability and the indirect wholly-owned subsidiary of the Company, as the purchaser in respect of the acquisition of a property development project situated at Si Ma Village, Changping Prefecture, Dongguan City, Guangdong Province, the PRC at a consideration of RMB210 million; and procurement of service from the Vendor at the Service Fee of RMB163.92 million (subject to adjustment);
- (f) the sale and purchase agreement dated 21 September 2018 entered into by Nanjing Huajun Real Estate Co., Ltd.* (南京華君置業有限公司), a company incorporated in the PRC with limited liability and wholly owned by Mr. Meng, as vendor and Baohua Properties (China) Limited* (保華地產(中國)有限公司), an indirect wholly-owned subsidiary of the Company, as purchaser in respect of the acquisition of the entire equity interest in Baohua Properties (Huai'an) Limited* (保華地產(淮安)有限公司) and outstanding debts of Baohua Properties (Huai'an) Limited* (保華地產(淮安)有限公司) owed to or to be owed by the said vendor before the completion at the aggregate consideration of RMB180 million, subject to adjustment;

- (g) the asset transfer agreement dated 16 October 2018 entered into between Jurong Simaite Intelligent Science and Technology Co., Ltd.* (句容思麥特智能科技有限公司) as vendor and Huajun Power Technology (Jiangsu) Co., Ltd.* (華君電力科技(江蘇)有限公司) (“**Huajun Power Jiangsu**”), an indirect wholly-owned subsidiary of the Company, as purchaser, pursuant to which the vendor has conditionally agreed to sale, and Huajun Power Jiangsu has conditionally agreed to purchase certain assets owned by the vendor as listed in the said asset transfer agreement at the consideration of RMB125.30 million (which has been terminated on 28 November 2018);
- (h) the asset transfer agreement dated 16 October 2018 entered into between Jiangsu Xietong Solar Technology Co., Ltd.* (江蘇協通光伏科技有限公司) as vendor and Huajun Power Jiangsu as purchaser, pursuant to which the vendor has conditionally agreed to sale, and Huajun Power Jiangsu has conditionally agreed to purchase certain assets owned by the vendor as listed (which has been terminated on 28 November 2018);
- (i) the subscription agreement dated 26 October 2018 entered into by the Company and China Huajun Group Limited in respect of the subscription of convertible bond in the principal amount of HK\$1 billion;
- (j) the transfer agreement dated 5 December 2018 entered into between Zhang Lijun (張立君) and Ren He (任賀), as vendors, and Huajun Power Jiangsu, an indirect wholly-owned subsidiary of the Company, as purchaser, pursuant to which the vendors have conditionally agreed to sell, and Huajun Power Jiangsu has conditionally agreed to purchase the entire equity interest in Jurong Simaite Intelligent Science and Technology Co., Ltd.* (句容思麥特智能科技有限公司) at the consideration of RMB137.2 million (which has been lapsed on 1 April 2019);
- (k) the transfer agreement dated 5 December 2018 entered into between Yang Hongjun (楊洪俊) and Lu Xiaocheng (陸小程), as vendors, and Huajun Power Jiangsu, an indirect wholly-owned subsidiary of the Company, as purchaser, pursuant to which the vendors have conditionally agreed to sell, and Huajun Power Jiangsu has conditionally agreed to purchase the entire equity interest in Jiangsu Xietong Solar Technology Co., Ltd. (江蘇協通光伏科技有限公司), at the consideration of RMB367.5 million (which has been lapsed on 1 April 2019);
- (l) the agreement dated 6 December 2018 entered into among Mr. Cong Liming (叢黎明) and Liaoning Huajun Equipment Manufacturing Co., Limited* (遼寧華君裝備製造有限公司), as vendors, and Huajun Industrial Park Management (China) Limited* (華君產業園管理(中國)有限公司), as purchaser pursuant to which the vendors have conditionally agreed to sell and Huajun Industrial Park Management (China) Limited has conditionally agreed to purchase the entire equity interest in Dalian Hydraulic Machinery Co., Limited* (大連液力機械有限公司) at the aggregate consideration of RMB36 million;

- (m) the agreement dated 19 February 2019 entered into between Ms. Yu Jing (于晶), as vendor and Baohua Properties, as purchaser, pursuant to which the vendor has conditionally agreed to sell, and Baohua Properties has conditionally agreed to purchase, the entire equity interest in the Yingkou Contemporary Group Company Limited* (營口當代集團股份有限公司), and all amounts (whether principal, interest or otherwise) owing by the target group to the vendor at completion, at the aggregate consideration of RMB128,000,000 (which has been lapsed on 1 July 2019);
- (n) the notice of Listing-for-Sale and the Transaction Confirmation Letter* (成交確認書) dated 29 March 2019 issued by the Dalian City Natural Resources Bureau* (大連市自然資源局) in respect of the acquisition of the land parcel situated at Ha Da High Speed Hou Yan Shou Fei Station West, Ying Jin Road (Guo Dao 202) and Gui Bai Road Junction East * (哈大高速後鹽收費站西側，迎金路(國道202)與檜柏路交匯處東側), numbered Da Cheng No. 4 Zong De* (大城(2019)-4號棕地) by Huajun Technology at the consideration of RMB319.27 million;
- (o) the investment agreement dated 15 May 2019 entered into between New Island Printing Company Limited (新洲印刷有限公司), an indirect wholly-owned subsidiary of the Company, and Nanjing Liuhe Economic Development Zone Management Committee* (南京六合經濟開發區管委會) in respect of (i) the potential bidding of the land parcel situated at Liuhe Economic Development Zone* (六合經濟開發區), Nanjing City, Jiangsu Province, the PRC, with a total site area of approximately 107 mu (the “**Target Land**”), (ii) the potential acquisition of the assets (the “**Target Assets**”) comprises of workshop, factory, auxiliary rooms, power distribution room overall facilities etc. which are located on the Target Land; and (iii) the setting up of high-end printing and packaging production base in the economic zone by New Island Packaging Technology (Jiangsu) Company Limited* (新洲包裝科技(江蘇)有限公司), an indirect wholly-owned subsidiary of the Company (the “**Project Company**”);
- (p) the assets transfer agreement dated 15 May 2019, as supplemented and amended by supplemental agreement dated 6 June 2018, entered into between the Project Company with Nanjing Yunhai Auto Glass Equipment Manufacturing Co., Ltd.* (南京雲海汽車玻璃設備製造有限公司), Pang Haishu (龐海樹), Yuan Qingting (袁青亭), Pang Xiaoling (龐小玲) and Pang Gaofeng (龐高峰), as vendors, pursuant to which the vendors have conditionally agreed to sell, and the Project Company has conditionally agreed to purchase the Target Assets at the consideration of RMB87,000,000;
- (q) the acquisition agreement dated 23 May 2019 entered into between Baohua Properties (China) Limited* (保華地產(中國)有限公司), an indirect wholly owned subsidiary of the Company, as purchaser, and Wuxi City Jinde Assets Management Limited* (無錫市金德資產管理有限公司), as vendor, pursuant to which the purchaser has agreed to acquire, and the vendor has agreed to sell, 30% equity interests in and debt due by Wuxi Huize Real Estate Co., Ltd.* (無錫惠澤置業有限公司) for an aggregate consideration of RMB154,191,453.05;

- (r) the notice of Listing-for-Sale and the Transaction Confirmation Letter* (成交確認書) dated 18 July 2019 issued by the Nanjing Land and Resources Bureau Liuhe Branch* (南京市國土資源局六合分局) in respect of the acquisition of the land parcel situated at Liuhe Economic Development Zone* (六合經濟開發區), Nanjing City, Jiangsu Province, the PRC, with a total site area of approximately 107 mu, by New Island Packaging Technology (Jiangsu) Company Limited* (新洲包裝科技(江蘇)有限公司) at the consideration of RMB26,150,000;
- (s) the subscription agreement dated 16 August 2019 entered into by the Company and China Huajun Group Limited in respect of the subscription of convertible bond in the principal amount of HK\$1,000,000,000 (which has been lapsed on 31 December 2019);
- (t) the Transaction Confirmation Letter of state-owned construction land use rights* (國有建設用地使用權出讓成交確認書) dated 21 December 2019 issued by the Nanjing Planning and Natural Resources Bureau Liuhe Branch* (南京市規劃和自然資源局六合分局) in respect of the acquisition of the land parcel situated at Liuhe Economic Development Zone* (六合經濟開發區), Nanjing City, Jiangsu Province, the PRC, with a total site area of approximately 122,925.61 sq. m., by Huajun Power (Nanjing) Co., Limited* (華君電力(南京)有限公司) at the consideration of RMB48,560,000;
- (u) the subscription agreement dated 22 January 2020 entered into by the Company and China Huajun Group Limited in respect of the subscription of convertible bond in the principal amount of HK\$1,000,000,000; and
- (v) the Sale and Purchase Agreement dated 30 March 2020 was entered into between Baohua Properties (China) Limited* (保華地產(中國)有限公司), an indirect wholly-owned subsidiary of the Company, and Changzhou Shiao New Energy Co., Ltd* (常州世傲新能源有限公司), a limited liability company established in the PRC, in respect of the disposal of 100% equity interest and the paid-up capital and a loan of RMB232,110,000 owed by Huaren Real Estate (Huai'an) Co., Ltd* (華仁置業(淮安)有限公司) to Baohua Properties (China) Limited at a consideration of RMB252,110,000.

11. GENERAL

- (a) The company secretary of the Company is Mr. Tam Ka Lung, who is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (c) The head office and principal place of business of the Company is situated at 36/F, Champion Tower, 3 Garden Road, Central, Hong Kong.
- (d) The Hong Kong share registrar of the Company is Union Registrars Limited, located at Suites 3301-04, 33/F., Two Chinachem Exchange Square 338 King's Road, North Point, Hong Kong.

- (e) In the event of inconsistency, the English text shall prevail over the Chinese text.
- (f) Translated English names of Chinese entities for which no official English translation exists are unofficial translations for identification purpose only and should not be regarded as the official English translation of the Chinese names.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 36/F., Champion Tower, 3 Garden Road, Central, Hong Kong on any business day from the date of this circular up to the date which is 14 days after the date of this circular:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the three financial years ended 31 March 2017 and 31 March 2018, nine months ended 31 December 2018 and the interim report of the Company for the six months ended 30 June 2019;
- (c) each of the material contracts as referred to in the section headed “Material contracts” in this appendix;
- (d) the letter of recommendation dated 29 April 2020 from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the Appendix I of this circular;
- (e) the letter of advice dated 29 April 2020 from Shinco Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set on the Appendix II of this circular;
- (f) the written consent referred to in the section headed “Qualifications and consents of experts” in this appendix;
- (g) the Subscription Agreement;
- (h) the circulars of the Company dated 25 January 2019, 31 January 2019, 24 June 2019, 30 September 2019, 11 November 2019 and 26 March 2020; and
- (i) this circular.

* *For identification purposes only. The Chinese names of the respective individuals and entities have been translated into English in this circular. In the event of any discrepancies between the Chinese names and the corresponding English translation, the Chinese names prevail.*



HUAJUN INTERNATIONAL GROUP LIMITED

華君國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 377)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Huajun International Group Limited (the “**Company**”) will be held at 3:00 p.m. on Thursday, 21 May 2020 at Conference Room, 36/F, Champion Tower, 3 Garden Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as ordinary resolution:

Unless otherwise specified, capitalised terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 29 April 2020.

ORDINARY RESOLUTION

“**THAT**

- (a) the conditional subscription agreement (the “**Subscription Agreement**”) (a copy of which has been produced to the Meeting marked “A” and initialed by the chairman of the Meeting for identification purpose) dated 22 January 2020 and entered into between the Company and China Huajun Group Limited in respect of the subscription (the “**Subscription**”) for the Convertible Bond (the “**Convertible Bond**”) in principal amount of HK\$1,000,000,000 to be issued by the Company, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the terms and conditions of the instrument of the convertible bond (the “**Instrument**”) to be executed by the Company in relation to the Convertible Bond to be issued by the Company to CHG or its nominee under the Specific Mandate (a copy of which has been produced to the Meeting marked “B” and initialed by the chairman of the Meeting for identification purpose), subject to the Completion, which are convertible into Conversion Shares pursuant to the Instrument at the initial conversion price of HK\$38.00 per share (subject to adjustments) be and are hereby approved, confirmed and ratified;

- (c) subject to completion of the Subscription of the Convertible Bond the grant of the Specific Mandate to the Directors to issue the Convertible Bond and to issue and allot the Conversion Shares to CHG pursuant to the Instrument be and is hereby approved, confirmed and ratified. The Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the Shareholders prior to the passing of this resolution; and
- (d) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the allotment and issue of the Convertible Bond to CHG.”

By Order of the Board
Huajun International Group Limited
TAM Ka Lung
Company Secretary

Hong Kong, 29 April 2020

Notes:

1. In order to determine the entitlement to attend and vote at the special general meeting, the register of members of the Company will be closed from Monday, 18 May 2020 to Thursday, 21 May 2020, both days inclusive, during which no transfer of shares will be registered. Shareholders whose names appear on the register of members of the Company on Monday, 18 May 2020 shall be entitled to attend and vote at the Meeting. In order to ascertain shareholders' rights for attending and voting at the special general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Friday, 15 May 2020.
2. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his/her behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company.
3. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are requested to complete, sign and return the form of proxy in accordance with the instructions printed thereon. Completion and return of the accompanying form of proxy will not preclude members of the Company from attending and voting in person at the aforesaid meeting or any adjournment thereof should they so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. To be valid, the form of proxy, together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority must be deposited with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

5. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.
6. In the case of joint holders of shares, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, that one of such joint holders whose name stands first on the register of members of the Company in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
7. The voting on the proposed resolution at the SGM will be conducted by way of poll.

As at the date of this notice, the Board comprises Mr. Meng Guang Bao, Ms. Zhang Ye, Ms. Huang Xiumei and Ms. Bao Limin as executive Directors; and Mr. Zheng Bailin, Mr. Shen Ruolei and Mr. Pun Chi Ping as independent non-executive Directors.