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ASIA INVESTMENT FINANCE GROUP LIMITED 亞投金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 33)

CONNECTED TRANSACTION IN RELATION TO PROPOSED ALTERATION OF TERMS OF CONVERTIBLE BONDS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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



Akron Corporate Finance Limited
亞貝隆資本有限公司

A notice convening the extraordinary general meeting of the Company to be held at Unit 3201, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong on Tuesday, 18 June 2019 at 3:00 p.m. (or immediately after the conclusion or adjournment of the annual general meeting of the Company held at the same place, on the same date and at 2:30 p.m.), is set out on pages 42 to 44 of this circular. Whether or not you propose to attend the meeting, you are advised to complete the form of proxy attached to the notice of the extraordinary general meeting in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

20 May 2019

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DEFINITIONS

In this circular, unless the context requires otherwise, the expressions as stated below will have the following meanings:

“Additional Convertible Bonds”	the convertible bonds in the principal amount of HK\$5 million to be issued by the Company to the Bondholder pursuant to the Instrument and the Deed of Variation
“Alteration of Terms”	the proposed alteration of certain terms and conditions of the Outstanding Convertible Bonds and the Instrument pursuant to the Deed of Variation
“Articles”	the article of association of the Company
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors or a duly authorised committee thereof
“Bondholder”	Internet Finance Investment Co. Ltd., a company incorporated under the law of the British Virgin Islands, which is wholly owned by Ms. Cheung and the holder of the outstanding Convertible Bonds
“connected persons”	has the meaning ascribed to it in the Listing Rules
“Company”	Asia Investment Finance Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Conversion Price”	being HK\$0.10 per Share
“Conversion Share(s)”	the Shares to be issued upon exercise of the conversion rights attaching to the Outstanding Convertible Bonds and Additional Convertible Bonds at the Conversion Price
“Convertible Bonds”	the Outstanding Convertible Bonds and the Additional Convertible Bonds

DEFINITIONS

“Deed of Variation”	the deed of variation dated 18 February 2019 entered into between the Company and the Bondholder in relation to certain amendments of the Instrument and the terms and conditions of the Outstanding Convertible Bonds
“Directors”	the directors of the Company and each a “Director”
“EGM”	the extraordinary general meeting of the Company to be convened and, if thought fit, approve, among others, the Deed of Variation and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administration Region of the People’s Republic of China
“Independent Board Committee”	a Board committee comprising all independent non-executive Directors established to make recommendation to the Independent Shareholders in relation to the Deed of Variation and the transactions contemplated thereunder
“Independent Financial Adviser” or “Akron”	Akron Corporate Finance Limited, an independent financial adviser appointed by the Company to give advice and make recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Deed of Variation and the transactions contemplated thereunder
“Independent Shareholder(s)”	the Shareholders excluding Ms. Cheung, the Bondholder and their respective associates
“Instrument”	the deed poll dated 18 February 2016 executed by the Company creating the zero coupon convertible bonds due 2018 in the principal amount of HK\$100 million and as amended by the Prior DOV

DEFINITIONS

“Latest Practicable Date”	14 May 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Ms. Cheung”	Ms. Cheung Kwan, who is interested in approximately 26.27% of the issued share capital of the Company and owns the entire shareholding interest in the Bondholder as at the Latest Practicable Date
“Prior DOV”	the deed of variation dated 10 January 2018 entered into between the Company and the Bondholder amending the Instrument and the terms and conditions of the Outstanding Convertible Bonds, namely extending the maturity date of the Outstanding Convertible Bonds to 18 February 2019
“Outstanding Convertible Bonds”	the outstanding convertible bonds in the principal amount of HK\$100 million issued by the Company to the Bondholder pursuant to the Subscription Agreement and the Instrument as amended by the Prior DOV and the Deed of Variation
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company
“Shareholders”	registered holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 5 November 2015 entered into among the Company, the Bondholder and Ms. Cheung in relation to, among others, the subscription of the Outstanding Convertible Bonds by the Bondholder
“%”	per cent

LETTER FROM THE BOARD



ASIA INVESTMENT FINANCE GROUP LIMITED 亞投金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 33)

Executive Directors:

Ms. Cheung Kwan (*Chairlady*)
Mr. Sun Yu
Mr. Liu Hu
Ms. Zhao Hong Mei

Non-executive Directors:

Mr. Wang Dayong
Mr. Li Xin

Independent non-executive Directors:

Mr. Anthony Espina
Ms. Jin Xin
Mr. Wang Jun Sheng

Registered office:

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman, KY1-1104
Cayman Islands

*Principal place of business
in Hong Kong:*

Unit 3201, 32/F.
Bank of America Tower
12 Harcourt Road, Central
Hong Kong

20 May 2019

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO PROPOSED ALTERATION OF TERMS OF CONVERTIBLE BONDS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

BACKGROUND

Reference is made to the announcements dated 5 November 2015, 18 February 2016 and 10 January 2018, and the circular dated 8 January 2016 and 28 February 2018 of the Company in relation to, among other things, the issuance of the Outstanding Convertible Bonds and amendment of its terms. Pursuant to the Subscription Agreement and the Instrument, the Company issued the Outstanding Convertible Bonds in the total principal amount of HK\$100,000,000 to the Bondholder on 18 February 2016. Pursuant to the Prior DOV, the maturity date of the Outstanding Convertible Bonds was extended from 18 February 2018 to 18 February 2019. As at 18 February 2019, the Outstanding Convertible Bonds in the principal amount of HK\$100,000,000 are outstanding and held by the Bondholder. The Outstanding Convertible Bonds are unsecured and shall mature on 18 February 2019.

LETTER FROM THE BOARD

The Company announced on 18 February 2019 that the Company and the Bondholder entered into the Deed of Variation in respect of the proposed alteration of certain terms and conditions of the Outstanding Convertible Bonds and the Instrument and the proposed issue of the Additional Convertible Bonds. Subject to completion of the Deed of Variation, the maturity date of the Outstanding Convertible Bonds will be extended to 18 February 2020. In the meantime, the Bondholder has confirmed that it will not take any legal action against the Company in respect of the Outstanding Convertible Bonds.

DEED OF VARIATION

Date: 18 February 2019

Parties: (i) the Company
(ii) the Bondholder

Alteration of Terms

Pursuant to the Deed of Variation, it is agreed that:

- (i) the maturity date of the Outstanding Convertible Bonds will be extended from 18 February 2019 to 18 February 2020;
- (ii) the Outstanding Convertible Bonds will bear interest at the rate of 5% per annum commencing from 18 February 2019; and
- (iii) the principal amount of the Instrument creating the Outstanding Convertible Bonds will be increased from HK\$100,000,000 to HK\$105,000,000.

Save for the above proposed alterations under the Deed of Variation, all other terms and conditions of the Outstanding Convertible Bonds and the Instrument shall remain unchanged.

LETTER FROM THE BOARD

The principal terms of the Outstanding Convertible Bonds immediately prior to the Deed of Variation are set out as follows:

Interest rate:	Nil
Adjustment to Conversion Price:	<p>The Conversion Price shall from time to time be adjusted in accordance with the relevant provisions under the terms and conditions of the Outstanding Convertible Bonds upon occurrence of, among other things, the following events:</p> <ul style="list-style-type: none">(i) consolidation or subdivision of the Shares;(ii) capitalisation of profits or reserves;(iii) capital distribution; and(iv) offer of new Shares for subscription by way of rights, or issue or grant options or warrants or other rights to subscribe for new Shares, at a price which is less than 80% of the market price per Share.
Redemption and mandatory conversion:	<p>The Company shall redeem the Outstanding Convertible Bonds then outstanding at a value equal to the aggregate principal amount then outstanding on the maturity date. The Company shall be entitled to early redeem any part of the Outstanding Convertible Bonds at any time prior to the maturity date at 103% of the principal amount. The Company shall be entitled to give notice to the bondholders at any time within 5 business days prior to the maturity date to require mandatory conversion of all Outstanding Convertible Bonds.</p>
Transferability:	<p>Subject to the Listing Rules, the grant of approval for the listing and permission to deal in the Conversion Shares and other relevant approvals and requirements, the Outstanding Convertible Bonds are freely transferable by the bondholders.</p>
Voting rights:	<p>A bondholder will not be entitled to receive notice of, attend or vote at any general meetings of the Company by reason only of it being a bondholder.</p>

LETTER FROM THE BOARD

Ranking: The Outstanding Convertible Bonds constitute unsubordinated, unconditional and unsecured obligations of the Company and shall at all times rank pari passu and without any preference or priority among themselves and all existing and future unsubordinated and unsecured obligations of the Company.

Events of default: After the occurrence of an event of default as specified in the terms and conditions of the Outstanding Convertible Bonds, a bondholder may give notice to the Company that the Convertible Bonds are immediately due and payable.

Issue of Additional Convertible Bonds

Pursuant to the Deed of Variation, in consideration of the Bondholder agreeing to enter into the Deed of Variation, the Company shall issue the Additional Convertible Bonds in the principal amount of HK\$5,000,000 to the Bondholder free of payment immediately after the Alteration of Terms becoming effective.

The Alteration of Terms and the issue of the Additional Convertible Bonds were arrived at after arm's length negotiations between the Company and the Bondholder with reference to, among others, the existing financial condition and resources of the Group.

Conversion Shares

Assuming full conversion of the Convertible Bonds in the aggregate principal amount of HK\$105,000,000 at the Conversion Price of HK\$0.10 per Share, 1,050,000,000 Conversion Shares will be allotted and issued by the Company, representing:

- (i) approximately 11.26% of issued share capital of the Company as at the date of the Deed of Variation; and
- (ii) approximately 10.12% issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

LETTER FROM THE BOARD

The Conversion Price of HK\$0.10 per Share represents:

- (i) a premium of approximately 89% to the closing price of the Shares of HK\$0.053 per Share as quoted on the Stock Exchange on 18 February 2019, being the date of the Deed of Variation;
- (ii) a premium of approximately 108% to the average closing price of approximately HK\$0.048 per Share as quoted on the Stock Exchange for the last five trading days immediately before the date of the Deed of Variation;
- (iii) a premium of approximately 96% to the closing price of approximately HK\$0.051 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (iv) a premium of approximately 223% to the net asset value per Share of approximately HK\$0.031 calculated based on the net assets of the Company as at 31 December 2018 and 9,327,172,000 Shares in issue.

Conditions Precedent

The Deed of Variation shall become effective upon the fulfillment of all the following conditions precedent:

- (a) the passing of ordinary resolution(s) by the Independent Shareholders at the EGM approving (i) the Deed of Variation and the transactions contemplated thereunder; (ii) the issue of the Additional Convertible Bonds; and (iii) the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds;
- (b) the approval from holder of the Outstanding Convertible Bonds of more than 50% of the aggregate principal amount of the Outstanding Convertible Bonds approving the Alteration of Terms having been obtained by the Company;
- (c) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Conversion Shares falling to be allotted and issued upon an exercise of the conversion rights attaching to the Convertible Bonds; and
- (d) the Company having obtained from the Stock Exchange all requisite approval or consent to the Alteration of Terms.

LETTER FROM THE BOARD

The Alteration of Terms shall take effect on the date on which the Company notifies the Bondholder in writing the fulfillment of the conditions precedent as set out above, which date shall not be more than five business days after the fulfillment of all conditions precedent.

None of the conditions precedent can be waived. If any of the conditions precedent above has not been fulfilled on or before 8 May 2019 (or such other date as may be agreed by the parties to the Deed of Variation in writing) the Deed of Variation shall lapse and be of no further effect and none of the parties to the Deed of Variation will have any claim against or liability to the other parties in respect of the Deed of Variation save for any antecedent breaches thereof.

On 8 May 2019, the Company and the Bondholder entered into a confirmation letter to extend the long stop date for fulfillment of the above conditions precedent to 31 August 2019.

As at the Latest Practicable Date, condition (b) above have been fulfilled.

INFORMATION ON THE BONDHOLDER

The Bondholder is a company incorporated under the law of the British Virgin Islands. The principal business activity of the Bondholder is investment holding.

REASONS FOR ENTERING INTO THE DEED OF VARIATION

The Group is currently principally engaged in securities brokerage and asset management, money lending, credit guarantee and investment, trading of party products and metals and minerals, trading of security products and provision of security services.

After considering the Bondholder's agreement to extend the maturity date of the Outstanding Convertible Bonds and other terms of the Deed of Variation, the Board is of the view that it is more beneficial for the Group to enter into the Deed of Variation than to obtain external financing.

As disclosed in the annual report for the year ended 31 December 2018 of the Company, the Company incurred a net loss of approximately HK\$103.3 million. In addition, the cash and cash equivalents was approximately HK\$22.9 million as at 31 December 2018, which was insufficient to repay the outstanding Convertible Bonds upon its original maturity date (i.e. 18 February 2019).

LETTER FROM THE BOARD

The Company has considered other financing alternatives. It would be difficult for the Company to obtain bank loans due to the Company's current financial position, loss making for the past several years and the lack of collateral acceptable to banks. Prior to entering into the Deed of Variation, the Company had been negotiating for possible equity fund raisings by way of issuing new Shares and/or convertible bonds. However no binding agreement was reached. Hence it was uncertain whether adequate funding could be secured for repayment of the Outstanding Convertible Bonds.

Although the Company entered into binding subscription agreements for issue of new Shares to raise up to HK\$30 million as announced on 18 March 2019, such funds will be used for general working capital of the Group and in any event the amount would not be sufficient for repayment in full of the Outstanding Convertible Bonds. Other equity financing such as rights issue and open offer would be more time consuming and costly relative to the Alteration of Terms. Nevertheless the Company will continue to look for possible equity fund raising opportunities to address the business needs of the Group.

The maturity date of the Outstanding Convertible Bonds had been extended once under the Prior DOV in 2018. The Alteration of Terms represents a second extension of the maturity date. The proposed coupon rate of 5% per annum under the Deed of Variation is in line with the coupon rates of other similar convertible bonds in the market. The issue of Additional Convertible Bonds represents an additional incentive and compensation to the Bondholder for further extending the maturity date of the Outstanding Convertible Bonds. After taking into account of (i) the uncertainty of securing adequate funding for repayment of the Outstanding Convertible Bonds; (ii) this is the second extension of the maturity date and (iii) the financial position of the Group, the Directors consider that the terms of the Deed of Variation are fair and reasonable and in the interest of the Company and Shareholders as a whole.

APPLICATION FOR LISTING

Application will be made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares which may fall to be allotted and issued upon conversion of the Convertible Bonds.

MANDATE FOR THE ISSUE OF THE CONVERSION SHARES

The Company will seek the specific mandate from the Independent Shareholders at the EGM for the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds.

LETTER FROM THE BOARD

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming no other changes in the issued share capital of the Company from the Latest Practicable Date up to the full conversion of the Convertible Bonds by the Bondholder at HK\$0.10 per Share, the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after full conversion of the Convertible Bonds at the Conversion Price of HK\$0.10 per Share are illustrated as follows:

Shareholders	As at the Latest Practicable Date		Immediately after full conversion of the Convertible Bonds at the Conversion Price	
	No. of Shares	%	No. of Shares	%
Bondholder <i>(note)</i>	1,000,000,000	10.72	2,050,000,000	19.75
Ms Cheung <i>(note)</i>	1,450,000,000	15.55	1,450,000,000	13.97
	2,450,000,000	26.27	3,500,000,000	33.72
Public shareholders	6,877,172,000	73.73	6,877,172,000	66.28
Total	9,327,172,000	100.00	10,377,172,000	100.00

Note: The Bondholder is wholly owned by Ms. Cheung. Ms. Cheung directly holds 1,450,000,000 Shares in her own capacity as beneficial owner.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not carried out any equity fund raising activities during the 12 months immediately preceding the date of announcement dated 18 February 2019 relating to the Deed of Variation.

IMPLICATIONS UNDER THE LISTING RULES

According to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. As such, an application for the approval of the Alteration of Terms will be submitted to the Stock Exchange by the Company in due course.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Bondholder is wholly owned by Ms. Cheung, who is an executive Director and a substantial shareholder of the Company having an aggregate interest of 2,450,000,000 Shares in the Company, representing approximately 26.27% of the total issued share capital of the Company. The Bondholder is therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Deed of Variation constitutes a non-exempt connected transaction of the Company under the Listing Rules and is subject to the announcement, reporting and Independent Shareholders' approval requirements pursuant to the Listing Rules.

GENERAL

The Independent Board Committee (comprising all the independent non-executive Directors) has been established to give recommendation to the Independent Shareholders on the Deed of Variation and the transactions contemplated thereunder. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Deed of Variation and the transactions contemplated thereunder has been set out at pages 14 to 15 of this circular.

Save for Ms. Cheung who abstained from voting on the board resolutions in relation to the Deed of Variation and the transactions contemplated thereunder, none of the Directors and their respective associates have material interest in the Deed of Variation and the transactions contemplated thereunder and none were required to abstain from voting on the board resolutions in relation to the Deed of Variation and the transactions contemplated thereunder.

Akron Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard and a letter from Akron Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the Deed of Variation and the transactions contemplated thereunder has been set out at pages 16 to 37 of this circular.

LETTER FROM THE BOARD

THE EGM

A notice convening the EGM is set out on pages 42 to 44 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are advised to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion and delivery of a form of proxy will not preclude you from attending and voting at the meeting in person.

To the best of the knowledge, information and belief of the Directors, save for the Bondholder, Ms. Cheung and their respective associates, no Shareholder has a material interest in the transactions contemplated under the Deed of Variation, and the Bondholder, Ms. Cheung and their respective associates will abstain from voting on the resolution for approving the Deed of Variation and the transactions contemplated thereunder.

Pursuant to the Listing Rules, all votes of the Shareholders at the general meetings must be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. In this regard, the resolutions set out in the Notice of the EGM will be put to vote by way of poll.

RECOMMENDATION

The Board (excluding the independent non-executive Directors whose views are set out in the section headed "Letter from the Independent Board Committee" in this circular) considers that the terms of the Deed of Variation are fair and reasonable and the entering into the Deed of Variation is in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Independent Shareholders to vote in favour of the proposed ordinary resolution in relation to the Deed of Variation and the transactions contemplated thereunder as set out in the notice of EGM.

Yours faithfully,
On Behalf of the Board
Asia Investment Finance Group Limited
Cheung Kwan
Chairlady and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



ASIA INVESTMENT FINANCE GROUP LIMITED 亞投金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 33)

20 May 2019

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ALTERATION OF TERMS OF CONVERTIBLE BONDS

We refer to the circular dated 20 May 2019 issued by the Company (the “**Circular**”) of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as the members of the Independent Board Committee to consider the Deed of Variation and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Deed of Variation. Akron Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, as set out on pages 16 to 37 of the Circular, which contains its advices in respect of the Deed of Variation and the transactions contemplated thereunder, together with the principal factors and reasons the Independent Financial Adviser has taken into consideration in giving such advice. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in Appendix thereto.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Deed of Variation, the transactions contemplated thereunder and taking account of the independent advice of the Independent Financial Adviser and the relevant information contained in the letter from the Board, we are of the opinion that: (i) the entering of the Deed of Variation is not in the ordinary and usual course of business of the Company; and (ii) the terms of the Deed of Variation are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Deed of Variation and the transactions contemplated thereunder (including but not limited to the grant of the specific mandate for the allotment and issue of the Conversion Shares).

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Anthony Espina
*Independent Non-executive
Director*

Ms. Jin Xin
*Independent Non-executive
Director*

Mr. Wang Jun Sheng
*Independent Non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Deed of Variation and the transactions contemplated thereunder for inclusion in this Circular.



20 May 2019

*To The Independent Board Committee and the Independent Shareholders of
Asia Investment Finance Group Limited*

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO PROPOSED ALTERATION OF TERMS OF CONVERTIBLE BONDS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Deed of Variation and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular issued by the Company to its Shareholders dated 20 May 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Pursuant to the Subscription Agreement and the Instrument, the Company issued the Outstanding Convertible Bonds in the total principal amount of HK\$100,000,000 to the Bondholder on 18 February 2016. Pursuant to the Prior DOV, the maturity date of the Outstanding Convertible Bonds was extended from 18 February 2018 to 18 February 2019. As at 18 February 2019, the Outstanding Convertible Bonds in the principal amount of HK\$100,000,000 are outstanding and held by the Bondholder. The Outstanding Convertible Bonds are unsecured and shall mature on 18 February 2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 18 February 2019, the Company and the Bondholder entered into the Deed of Variation in respect of the proposed alteration of certain terms and conditions of the Outstanding Convertible Bonds and the Instrument and the proposed issue of the Additional Convertible Bonds. Subject to completion of the Deed of Variation, the maturity date of the Outstanding Convertible Bonds will be extended to 18 February 2020. In the meantime, the Bondholder has confirmed that it will not take any legal action against the Company in respect of the Outstanding Convertible Bonds.

According to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. As such, an application for the approval of the Alteration of Terms will be submitted to the Stock Exchange by the Company in due course.

As at the Latest Practicable Date, the Bondholder is wholly owned by Ms. Cheung, who is an executive Director and a substantial Shareholder having an aggregate interest of 2,450,000,000 Shares, representing approximately 26.3% of the total issued share capital of the Company. The Bondholder is therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Deed of Variation constitutes a non-exempt connected transaction of the Company under the Listing Rules and is subject to the announcement, reporting and Independent Shareholders' approval requirements pursuant to the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Anthony Espina, Ms. Jin Xin and Mr. Wang Jun Sheng, all being independent non-executive Directors, has been established to advise the Independent Shareholders on the Deed of Variation and the transactions contemplated thereunder. We, Akron Corporate Finance Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

We are not connected with the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date. During the last two years, we were engaged as the independent financial adviser to the Company (the “**Previous Engagement**”) in respect of the proposed alteration of terms of convertible bonds, details of which are set out in the circular of the Company dated 28 February 2018. Under the Previous Engagement, we were required to express our opinion and give recommendation to the independent board committee and independent shareholders in respect of the alteration of terms of convertible bonds. Apart from normal professional fees paid or payable to us in connection with the Previous Engagement and this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to the Listing Rules.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinion and representations contained or referred to in the Circular and the statements, information, opinion and representations provided to us by the management of the Company (the “**Management**”) and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Management and the Directors, for which they are solely and wholly responsible, were true, accurate and complete 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 as set out in the Circular were reasonably made after due and careful inquiry 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 representations contained in the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that 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 or the Circular as a whole misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Deed of Variation and the transactions contemplated thereunder. 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. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Akron Corporate Finance Limited to ensure that such information has been correctly extracted from relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Deed of Variation and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Background information

The Group is currently principally engaged in securities brokerage and asset management, money lending, credit guarantee and investment, trading of party products and metals and minerals, trading of security products and provision of security services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table summarises the financial information of the Group for the years ended 31 December 2017 (“FY2017”) and 2018 (“FY2018”) as extracted from the annual report of the Company for FY2018 (the “2018 Annual Report”):

	For the years ended 31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)
Revenue	66,933	176,728
Gross profit	16,377	21,669
Loss before taxation	(102,899)	(141,133)
Loss for the year/period	(103,331)	(142,960)
	As at 31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)
Non-current assets	224,273	116,398
Current assets	298,006	409,177
Current liabilities	177,311	167,841
Non-current liabilities	52,350	–
Net current assets	120,695	241,336
Net assets	292,618	357,734
Cash and cash equivalents	22,910	78,460

The revenue of the Group dropped from approximately HK\$176.7 million for FY2017 to approximately HK\$66.9 million for FY2018, representing decrease of approximately 62.1%. According to the 2018 Annual Report, such decrease was mainly due to (i) the revenue of party products decreased by approximately 16.0% from approximately HK\$61.3 million for FY2017 to approximately HK\$51.5 million for FY2018; and (ii) the Group did not have revenue from trading of metals and minerals in FY2018 as compared with revenue of trading of metals and minerals of approximately HK\$99.3 million in FY2017. In addition, the Group recorded decrease in gross profit from approximately HK\$21.7 million for FY2017 to approximately HK\$16.4 million for FY2018, representing a decrease of approximately 24.4%. As revealed in the 2018 Annual Report, the decrease in gross profit was mainly due to a decrease in the revenue of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Despite the decrease in revenue and gross profit of the Group for FY2018, the gross profit margin of the Group increased from approximately 12.3% for FY2017 to approximately 24.5% for FY2018 and the net loss of the Group decreased by approximately 27.8% from approximately HK\$143.0 million for FY2017 to approximately HK\$103.3 million for FY2018.

According to the 2018 Annual Report, the increase in gross profit margin of the Group for FY2018 is attributable to (i) the Group did not have any trading of metals and minerals during FY2018 as compared the trading of metals and minerals business which contributed approximately 56% of the Group's total revenue and had low gross profit margin of 3% in FY2017; (ii) the Group has kept stable revenue of money lending business during FY2018 which generated interest income to the Group and financed from the Group's internal source of funds without significant direct costs; and (iii) although the revenue of trading of party products decreased, its gross profit margin has slightly increased from 8% for FY2017 to 11% for FY2018.

As mentioned the 2018 Annual Report, the decrease in net loss of the Group for FY2018 was mainly due to (i) the Group did not conduct trading of metals and minerals business in FY2018 as compared a loss of trading of metals and minerals business of approximately HK\$4.1 million in FY2017; (ii) the operating expenses decreased by approximately 23.3% from approximately HK\$113.0 million in FY2017 to approximately HK\$86.7 million in FY2018 due to the Group continued to restructure and optimize its businesses during FY2018 and to impose effective control to save operating expenses which mainly included staff costs, rental and office administration expenses; (iii) the impairment losses of loan and trade and other receivables of the Group decreased from approximately HK\$34.8 million in FY2017 to approximately HK\$5.3 million in FY2018, representing a decrease of approximately 84.8%.

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The Group recorded decrease in net current assets from approximately HK\$241.3 million as at 31 December 2017 to approximately HK\$120.7 million as at 31 December 2018, representing a decrease of approximately 50.0%. Cash and cash equivalents dropped by approximately 70.8% from approximately HK\$78.5 million as at 31 December 2017 to approximately HK\$22.9 million as at 31 December 2018. Net assets of the Group as at 31 December 2018 also decreased by approximately 18.2% from approximately HK\$357.7 million as at 31 December 2017 to approximately HK\$292.6 million as at 31 December 2018. As at 31 December 2018, total liabilities of the Group amounted to approximately HK\$229.7 million. The Group's gearing ratio was calculated as net debts (convertible bonds and other loan less cash and bank balances) divided by total equity plus net debts. The gearing ratio of the Group increased significantly from approximately 5.5% as at 31 December 2017 to approximately 31.5% as at 31 December 2018. Current ratio of the Group decreased from approximately 2.4 as at 31 December 2017 to approximately 1.7 as at 31 December 2018.

2. Reasons for and benefits of Alteration of Terms

As stated in the Board Letter, as at 18 February 2019, the Outstanding Convertible Bonds in the principal amount of HK\$100,000,000 are outstanding and held by the Bondholder. The Outstanding Convertible Bonds are unsecured and shall mature on 18 February 2019. After considering the Bondholder's agreement to extend the maturity date of the Outstanding Convertible Bonds and other terms of the Deed of Variation, the Board is of the view that it is more beneficial for the Group to enter into the Deed of Variation than to obtain external financing.

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According to the 2018 Annual Report, we note that as at 31 December 2018, the Group had (i) cash and cash equivalents of approximately HK\$22.9 million, which was insufficient for the Company to fully repay the outstanding principal amount of the Outstanding Convertible Bonds (being HK\$100,000,000); (ii) trading securities of approximately HK\$1.2 million and it allows the Group to realize the investments in stock markets from time to time; and (iii) total loan receivables from money lending business of approximately HK\$174.0 million of which current portion and non-current portion of loan receivables were approximately HK\$111.1 million and HK\$62.9 million respectively. Assuming that the Bondholder does not exercise any of its conversion rights to the Outstanding Convertible Bonds, after considering the cash and cash equivalents together with the fair value of the trading securities and aggregate amount of loan receivables as at 31 December 2018 amounting to approximately HK\$198.1 million, which is sufficient for full repayment of the outstanding principal amount of the Outstanding Convertible Bonds of HK\$100,000,000. However, realisation of the trading securities for the repayment may not maximize the Shareholders' returns as the realisation may not be at the right time and at the right price. In addition, money lending is one of the major businesses of the Group and it enables the Group to generate interest receivables (ranged from 5% to 17% per annum of amount of loans granted), as such the Directors consider it is impracticable to allocate the proceeds from the loan receivables (current and non-current portion which will mature within one year and between one and three years from 31 December 2018 respectively) for repayment of the Outstanding Convertible Bonds.

Furthermore, as discussed in the section headed "Background Information" above, the Group recorded a substantial decrease in the cash and cash equivalents and a decrease in current ratio for FY2018.

Based on our analysis on the financial situation as discussed above, the Group is unlikely to fully repay the Outstanding Convertible Bonds. In addition, as discussed under the paragraph headed "Other financing alternatives" below, the Group was unable to raise any additional funding from financial institutions or potential investors to settle the Outstanding Convertible Bonds. Hence, the only viable option for the Group would be extending the repayment date of the Outstanding Convertible Bonds to relieve the Group from immediate cashflow burden.

With reference to the Board Letter, the maturity date of the Outstanding Convertible Bonds had been extended once under the Prior DOV in 2018. The Alteration of Terms represents a second extension of the maturity date. We were advised by the Management that the issue of Additional Convertible Bonds represents an additional incentive and compensation to the Bondholder for further extending the maturity date of the Outstanding Convertible Bonds.

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For the first extension in 2018, we note that the closing price per Share fluctuated between HK\$0.084 and HK\$0.125 with average closing price of approximately HK\$0.102 during the period from 11 October 2017 to 10 January 2018 (the “**First Relevant Period**”) (being a period of approximately 3 months prior and including the date of Prior DOV). The conversion price of HK\$0.1 of the Outstanding Convertible Bonds represented a premium of approximately 19.0% over the lowest closing price, a discount of approximately 20.0% to the highest closing price and a discount of approximately 2.0% to the average closing price of the Shares during the First Relevant Period.

At the time of negotiation for the Alteration of the Terms, we note that the Shares had been traded at a level much lower than that during the First Relevant Period. Closing price per Share was consistently low which ranged from the lowest of HK\$0.035 to the highest of HK\$0.059 with average closing price of approximately HK\$0.043 during the period from 19 November 2018 to the date of the Deed of Variation (the “**Second Relevant Period**”) (being a period of approximately 3 months prior to and including the date of the Deed of Variation). The Conversion Price of HK\$0.1 represents a premium of approximately 185.7% over the lowest closing price, a premium of approximately 69.5% to the highest closing price and a premium of approximately 132.6% over the average closing price during the Second Relevant Period. Since the Conversion Price is already equivalent to the par value of the Shares, therefore it is impracticable for the Group to lower the Conversion Price to induce the Bondholder to further extend the maturity date. As such, we consider that it is fair and reasonable to issue Additional Convertible Bonds as an incentive to the Bondholder for further extending the maturity date of the Outstanding Convertible Bonds.

Besides, according to our comparison with other issue and subscription of convertible bonds/notes exercises (as discussed below), we are of the view that the interest rate of 5% per annum of the Convertible Bonds is in line with the recent market practice.

In view of (i) the decrease in the Group’s liquidity, there is no certainty that adequate cash resources will be available to the Group to maintain its current business operations and development after repayment of the Outstanding Convertible Bonds; (ii) the closing price per Share during the Second Relevant Period remained at a low level as compared with the Conversion Price; and (iii) prior to the maturity of the Outstanding Convertible Bonds, the Group does not have other available financing alternatives for settlement of the Outstanding Convertible Bonds (as discussed below), we consider that the Alteration of Terms is the only viable option of the Group and will be beneficial to the Company and its operations by mitigating the pressure on its cash flows.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Other financing alternatives

Upon our enquiry with the Management, we are given to understand that the Company has considered other financial alternatives to raise funds for repayment of the Outstanding Convertible Bonds instead of the Alteration of Terms, including but not limited to, bank borrowing and equity financing.

Bank borrowing will, like the Convertible Bonds, incur interest burden to the Group and may be subject to, including but not limited to, lengthy due diligence and negotiations with the banks which involve providing documents for credit evaluation procedure by the banks before entering into any debt financing agreement. The Directors are of the view that (i) the ability of the Group to obtain bank borrowings usually depends on the Group's profitability, financial position and the then prevailing market condition; and (ii) debt financing may require pledge of assets and/or other kind of securities acceptable to banks. Given that the Group recorded continuous loss for the past seven financial years from 2012 to 2018 and lack of collateral acceptable to banks, it is unlikely for the Group to obtain bank borrowings at favourable terms.

In respect of equity financing, fees/costs will be incurred for, including but not limited to, (i) preparing relevant documents including underwriting agreement(s), announcement(s), prospectus; (ii) engaging professionals such as legal adviser and reporting accountants; and (iii) printing charges in connection with the dispatch of the related documents. In view of the unsatisfactory financial performance of the Group, the Directors intend to avoid/minimise such kind of expenses. The Directors have also taken into account that equity financing will inevitably cause immediate dilution effect on the shareholding of the existing Shareholders and consider the Alteration of Terms is the most favourable option to the Group at the moment.

As discussed under the paragraph headed "Background Information" above, the Group recorded a decrease in the net assets and significant increase in the gearing ratio for FY2018, there may be concerns on the Company's viability amongst investors. Moreover, we observe a general downward trend for the closing prices of the Shares during the Review Period (as discussed below). It is uncertain whether the Group will be able to obtain financing from any financial institution or will any investors be interested in subscribing for the Shares.

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We have further enquired into the Management as to the Group's effort to seek for financing alternatives. As advised by the Management, prior to entering into the Deed of Variation, the Company had been negotiating for possible equity fund raisings by way of issuing new Shares and/or convertible bonds. However, no binding agreement was reached. Hence it was uncertain whether adequate funding could be secured for repayment of the Outstanding Convertible Bonds.

Although the Company entered into binding subscription agreements on 18 March 2019 for issue of new Shares to raise approximately HK\$30 million, it was a subsequent event which took place after the Deed of Variation and such funds will be used for general working capital of the Group and in any event the amount would not be sufficient for repayment in full of the Outstanding Convertible Bonds.

We also understood from the Directors that the Company had been and will continue to look for possible equity fund raising opportunities to address the business needs of the Group.

Having considered that (i) the full repayment of the Outstanding Convertible Bonds will substantially decrease the cash balance of the Group which may impose negative impact on the Group's liquidity; (ii) prior to the entering into of the Deed of Variation, the Group was uncertain whether adequate funding could be secured for repayment of the Outstanding Convertible Bonds as the Company did not succeed in attracting investors to subscribe for the new convertible bonds of the Company or to participate in equity fundraising exercise; (iii) the Alteration of Terms represents a second extension of the maturity date; (iv) the Alteration of Terms would alleviate the Group's immediate cash flow burden; (v) the Alteration of Terms is the most appropriate means, as compared to other financing alternatives, to refinance the Outstanding Convertible Bonds (particularly which will provide the Group with flexibility in deploying its cash resources in a less costly manner); and (vi) there are no other options available immediately prior to the maturity of the Outstanding Convertible Bonds and the Alteration of Terms is the most practical alternative for the Company, we are of the view that the Alteration of Terms and the entering into of the Deed of Variation is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Outstanding Convertible Bonds

On 18 February 2019, the Company and the Bondholder entered into the Deed of Variation in respect of the proposed alteration of certain terms and conditions of the Outstanding Convertible Bonds and the Instrument and the proposed issue of the Additional Convertible Bonds.

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Pursuant to the Deed of Variation, it is agreed that:

- (i) the maturity date of the Outstanding Convertible Bonds will be extended from 18 February 2019 to 18 February 2020;
- (ii) the Outstanding Convertible Bonds will bear interest at the rate of 5% per annum commencing from 18 February 2019; and
- (iii) the principal amount of the Instrument creating the Outstanding Convertible Bonds will be increased from HK\$100,000,000 to HK\$105,000,000.

Save for the above proposed alterations under the Deed of Variation, all other terms and conditions of the Outstanding Convertible Bonds and the Instrument shall remain unchanged.

The principal terms of the Outstanding Convertible Bonds immediately prior to the Deed of Variation are set out as follows:

- Interest rate : Nil
- Adjustment to Conversion Price : The Conversion Price shall from time to time be adjusted in accordance with the relevant provisions under the terms and conditions of the Outstanding Convertible Bonds upon occurrence of, among other things, the following events:
- (i) consolidation or subdivision of the Shares;
 - (ii) capitalisation of profits or reserves;
 - (iii) capital distribution; and
 - (iv) offer of new Shares for subscription by way of rights, or issue or grant options or warrants or other rights to subscribe for new Shares, at a price which is less than 80% of the market price per Share.

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- Redemption and mandatory conversion : The Company shall redeem the Outstanding Convertible Bonds then outstanding at a value equal to the aggregate principal amount then outstanding on the maturity date. The Company shall be entitled to early redeem any part of the Outstanding Convertible Bonds at any time prior to the maturity date at 103% of the principal amount. The Company shall be entitled to give notice to the bondholders at any time within 5 business days prior to the maturity date to require mandatory conversion of all Outstanding Convertible Bonds.
- Transferability : Subject to the Listing Rules, the grant of approval for the listing and permission to deal in the Conversion Shares and other relevant approvals and requirements, the Outstanding Convertible Bonds are freely transferable by the bondholders.
- Voting rights : A bondholder will not be entitled to receive notice of, attend or vote at any general meetings of the Company by reason only of it being a bondholder.
- Ranking : The Outstanding Convertible Bonds constitute unsubordinated, unconditional and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves and all existing and future unsubordinated and unsecured obligations of the Company.
- Events of default : After the occurrence of an event of default as specified in the terms and conditions of the Outstanding Convertible Bonds, a bondholder may give notice to the Company that the Convertible Bonds are immediately due and payable.

Issue of Additional Convertible Bonds

Pursuant to the Deed of Variation, in consideration of the Bondholder agreeing to enter into the Deed of Variation, the Company shall issue the Additional Convertible Bonds in the principal amount of HK\$5,000,000 to the Bondholder free of payment immediately after the Alteration of Terms becoming effective.

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Conditions Precedent

The Deed of Variation shall become effective upon the fulfillment of all the following conditions precedent:

- (a) the passing of ordinary resolution(s) by the Independent Shareholders at the EGM approving (i) the Deed of Variation and the transactions contemplated thereunder; (ii) the issue of the Additional Convertible Bonds; and (iii) the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds;
- (b) the approval from holder of the Outstanding Convertible Bonds of more than 50% of the aggregate principal amount of the Outstanding Convertible Bonds approving the Alteration of Terms having been obtained by the Company;
- (c) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Conversion Shares falling to be allotted and issued upon an exercise of the conversion rights attaching to the Convertible Bonds; and
- (d) the Company having obtained from the Stock Exchange all requisite approval or consent to the Alteration of Terms.

The Alteration of Terms shall take effect on the date on which the Company notifies the Bondholder in writing the fulfillment of the conditions precedent as set out above, which date shall not be more than five business days after the fulfillment of all the conditions precedent.

None of the conditions precedent can be waived. If any of the conditions precedent above has not been fulfilled on or before 8 May 2019 (or such other date as may be agreed by the parties to the Deed of Variation in writing) the Deed of Variation shall lapse and be of no further effect and none of the parties to the Deed of Variation will have any claim against or liability to the other parties in respect of the Deed of Variation save for any antecedent breaches thereof.

On 8 May 2019, the Company and the Bondholder entered into a confirmation letter to extend the long stop date for fulfillment of the above conditions precedent to 31 August 2019.

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As at the Latest Practicable Date, condition (b) above has been fulfilled.

Information of the Bondholder

The Bondholder is a company incorporated under the law of the British Virgin Islands. The principal business activity of the Bondholder is investment holding.

Conversion Price

The Conversion Price of HK\$0.1 per Conversion Share represents:

- (a) a premium of approximately 88.7% over the closing price of HK\$0.053 per Share as quoted on the Stock Exchange on 18 February 2019, being the date of the Deed of Variation;
- (b) a premium of approximately 108.3% over the average closing price of approximately HK\$0.048 per Share, being the average closing price of the Shares for the last 5 trading days immediately before the date of the Deed of Variation;
- (c) a premium of approximately 96.1% over the closing price of HK\$0.051 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (d) a premium of approximately 222.6% over the net asset value per Share of approximately HK\$0.031 calculated based on the audited net assets of the Group of approximately HK\$292.6 million as at 31 December 2018 and 9,327,172,000 Shares in issue as at 31 December 2018.

Comparison with historical closing prices of the Shares

In order to assess the fairness and reasonableness of the Conversion Price, we have performed a review on the daily closing prices of the Shares from 1 February 2018 to the date of the Deed of Variation (the “**Review Period**”) (being a period of approximately 12 months prior to and including the date of the Deed of Variation) and compared with the Conversion Price.

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Source: website of the Stock Exchange (www.hkex.com.hk)

As shown in the chart above, during the Review Period, a general downward trend was observed for the closing prices of the Shares which were traded in the range of HK\$0.035 to HK\$0.122 with average closing price of approximately HK\$0.076. The Conversion Price of HK\$0.1 represents a premium of approximately 185.7% over the lowest closing price, a discount of approximately 18.0% to the highest closing price and a premium of approximately 31.6% over the average closing price during the Review Period. Moreover, the Conversion Price is above the closing prices of the Shares for 198 trading days out of 255 trading days (representing approximately 77.6% of the total number of trading days) during the Review Period.

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Comparison with other issue and subscription of convertible bonds/notes exercises

As part of our analysis, we have further reviewed the subscription/placing of unlisted convertible bonds/notes exercises announced by companies listed on the Stock Exchange from 1 November 2018 up to the date of the Deed of Variation (being around three months period prior to the date of the Deed of Variation) which (i) have fixed term to maturity and fixed initial conversion price; and (ii) are issued for cash (the “**Comparables**”). Besides, we have excluded the comparable companies which are H-share companies whose share capital structures are different from that of the Company as not all the issued shares of a H-share company can be traded on the Stock Exchange such as its A-shares or domestic shares. To the best of our knowledge, we have found 17 transactions which met the said criteria. We consider that the aforesaid review period is appropriate to capture the recent market practice because the Comparables are considered for the purpose of taking a general reference for the recent market practice in relation to subscription/placing of convertible bonds/notes under the recent market condition and sentiment. We consider that as a result of the Alteration of Terms, the Outstanding Convertible Bonds is essentially being refinanced by the Convertible Bonds under the amended terms for one further year. In this connection, in substance, it is the issuance of convertible securities for cash (being the Convertible Bonds with a resembled maturity of one year) to repay the Outstanding Convertible Bonds. As such, we are of the view that the Comparables (which involved issue of convertible bonds/notes for cash) are fair and representative samples for comparison purpose, which represent an exhaustive list based on the said criteria, and are sufficient for assessing the fairness and reasonableness of the Alteration of Terms. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables.

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Item no.	Date of announcement	Name of listed issuer	Stock code	Term to maturity (years)	Annual interest rate %	Premium/ (Discount) of the conversion price over/(to) closing price per share on the last trading day prior to/on the date of the announcement %	Premium/ (Discount) of the conversion price over/(to) average closing price per share for the last five trading days prior to/on the date of the announcement %	
1	7 November 2018	LongiTech Smart Energy Holding Limited	1281	1	7.0	7.0	6.0	
2	12 November 2018	Moody Technology Holdings Limited	1400	2	8.0	(20.0)	(18.2)	
3	16 November 2018	Grand Field Group Holdings Limited	115	2	3.0	5.1	4.8	
4	30 November 2018	Sino Energy International Holdings Group Limited	1096	2	8.0	35.9	35.9	
5	4 December 2018	Prosperity International Holdings (H.K.) Limited	803	1	8.0	46.3	49.3	
6	4 December 2018	Prosperity International Holdings (H.K.) Limited	803	2	8.0	46.3	49.3	
7	6 December 2018	F8 Enterprises (Holdings) Group Limited	8347	2	10.0	69.5	63.9	
8	14 December 2018	Shunten International (Holdings) Limited	932	2	5.0	17.6	16.3	
9	18 December 2018	Shougang Concord Century Holdings Limited	103	3	4.0	83.3	86.4	
10	31 December 2018	China Ruifeng Renewable Energy Holdings Limited	527	2	8.0	(13.0)	(12.0)	
11	21 January 2019	Chinese Energy Holdings Limited	8009	2	8.0	–	14.5	
12	22 January 2019	Shunten International (Holdings) Limited	932	2	5.0	20.8	16.9	
13	24 January 2019	ShiFang Holding Limited	1831	3	3.0	9.1	4.5	
14	29 January 2019	Grand Peace Group Holdings Limited (“Grand Peace”)	8108	1.25	8.0	371.7	373.5	
15	31 January 2019	Enviro Energy International Holdings Limited	1102	1	15.0	11.7	7.6	
16	4 February 2019	Sinco Pharmaceuticals Holdings Limited	6833	1.5	6.0	22.0	30.1	
17	17 February 2019	IBO Technology Company Limited	2708	3	7.5	–	0.4	
				All Comparables:				
				Maximum	3.0	15.0	371.7	373.5
				Minimum	1.0	3	(20.0)	(18.2)
				Average	1.9	7.1	42.0	42.9
				Excluding Outlier (as defined below):				
				Maximum	3.0	15.0	83.3	86.4
				Minimum	1.0	3.0	(20.0)	(18.2)
				Average	2.0	7.1	21.4	22.2
18	February 2019	The Company	33	1	5.0	88.7	108.3	

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We note that the conversion price of convertible bonds issued by Grand Peace represents exceptional premium over each of its closing price per share on the last trading day on the date of the relevant announcement and for the last five trading days immediately prior to the date of the relevant announcement as compared with those of the other Comparables, hence, we consider to exclude Grand Peace (the “**Outlier**”) from the calculations in order to provide more relevant statistics.

(a) Conversion price

The conversion prices of the Comparables (i) ranged from a discount of approximately 20.0% to a premium of approximately 83.3% (the “**LTD Range**”), with an average premium of approximately 21.4% for their respective closing prices per share on the last trading day prior to/on the dates of the relevant announcements of the Comparables; and (ii) ranged from a discount of approximately 18.2% to a premium of approximately 86.4% (the “**5-Days Range**”), with an average premium of approximately 22.2% for their respective average closing prices per share for the last five trading days prior to/on the dates of relevant announcements of the Comparables.

The Conversion Price of HK\$0.1 per Share represents (i) a premium of approximately 88.7% over the closing price per Share on the date of the Deed of Variation (the “**LTD Premium**”); and (ii) a premium of approximately 108.3% over the average closing price per Share for last five trading days immediately before the date of the Deed of Variation (the “**5-Days Premium**”). Taking into account that the each of the LTD Premium and the 5-Days Premium are above the LTD Range and 5-Days Range respectively, we consider that the Conversion Price is fair and reasonable.

(b) Interest rate

The interest rates of the Comparables ranged from 3.0% to 15.0% (the “**Interest Rate Range**”) with an average interest rate of approximately 7.1% (the “**Interest Rate Average**”). The 5.0% interest rate of the Convertible Bonds is within the Interest Rate Range and below the Interest Rate Average, as such, we consider the interest rate of the Convertible Bonds is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) *Term to maturity*

The terms to maturity of the Comparables ranged from a minimum of 1 year to a maximum of 3 years (the “**Maturity Range**”), with an average term of approximately 2 years. The extension of 1 year under the Deed of Variation therefore falls within the Maturity Range.

In view of the above and taking into account the reasons for and benefits of the Alteration of Terms as described above, we are of the view that the principal terms of the Deed of Variation are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. **Financial Impact of the Alteration of Terms**

(a) *Net asset value*

According to the 2018 Annual Report, the net assets of the Group was approximately HK\$292.6 million as at 31 December 2018. Upon the Alteration of Terms becoming effective, there may be result in changes in the fair value of the Convertible Bonds which will be subject to the valuation from independent valuers and the review of the independent auditors of the Company in subsequent financial statements of the Group.

(b) *Liquidity*

As stated in the 2018 Annual Report, the Group had cash and cash equivalents of approximately HK\$22.9 million as at 31 December 2018. The Alteration of Terms will enable the Group to delay a substantial cash outflow as the maturity date of the Outstanding Convertible Bonds is extended, which would alleviate the immediate pressure on cash flow of the Group and is expected to maintain the immediate liquidity of the Group by retaining financial resources for its operation and development.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) Earnings

Upon the Alteration of Terms becoming effective, the Convertible Bonds will bear interest at 5% per annum commencing from 18 February 2019 while the Outstanding Convertible Bonds was non-interest bearing. Therefore, the Company will incur interest expenses subsequent to the Alteration of Terms becoming effective until the conversion and/or redemption of the Convertible Bonds in full.

(d) Gearing ratio

As at 31 December 2018, the gearing ratio of the Group was approximately 31.5%. Upon the Alteration of Terms becoming effective, assuming no other factors affecting the financial position of the Group, the total borrowings will increase and the gearing ratio will increase. However, the gearing position would improve upon the exercise of the conversion rights attaching to the Convertible Bonds.

Although the Alteration of Terms will not have any immediate improvement to the gearing position of the Group and will incur interest burden for the Group, after taking into consideration the liquidity position of the Group as discussed above, we are of the view that the Alteration of Terms is in the interest of the Company and the Shareholders as a whole.

5. Dilution effect on the shareholding interests of the existing public Shareholders

The table which illustrates the possible shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after full conversion of the Convertible Bonds at the Conversion Price are contained under the section headed “Effect on the Shareholding Structure of the Company” in the Board Letter.

Upon Completion and full conversion of the Convertible Bonds at the initial Conversion Price, 1,050,000,000 Conversion Shares will be allotted and issued, representing approximately 11.3% of the total number of issued Shares as at the Latest Practicable Date and approximately 10.1% of the total number of issued Shares as enlarged by the issuance of the Conversion Shares. Assuming that the Company does not issue and/or repurchase any Shares from the Latest Practicable Date up to the Alteration of Terms becoming effective, the aggregate shareholding of the public Shareholders will decrease from approximately 73.7% as at the Latest Practicable Date to approximately 66.3% upon full conversion of the Convertible Bonds, representing a dilution of approximately 10.0%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are aware of the potential cumulative dilution effect as a result of conversion of the Convertible Bonds. However, it should be noted that (i) the Alteration of Terms would effectively allow the Group to refinance its debts under the Outstanding Convertible Bonds with the amended terms for one further year; (ii) the consecutive loss positions of the Group pose difficulties in obtaining bank borrowing in favourable terms as discussed in the section headed “Other financing alternatives” above; and (iii) equity financing will inevitably cause immediate dilution effect on the shareholding of the existing Shareholders. Based on the foregoing, we consider the Alteration of Terms and the entering into of the Deed of Variation is in the interests of the Company and the Shareholders as a whole and we are of the opinion that such potential dilution to shareholdings of the public Shareholders is acceptable.

RECOMMENDATION

Having considered the principal factors and reasons described above, we are of the opinion that (i) the entering into of the Deed of Variation is not in the ordinary and usual course of business of the Company; and (ii) the terms of the Deed of Variation are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Deed of Variation and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Akron Corporate Finance Limited
Ross Cheung
Managing Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

Interests of Directors and chief executives

As at the Latest Practicable Date, save as disclosed below, none of the Directors or the chief executives of the Company or their respective associates had or was deemed to have any interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or the chief executives of the Company or their respective associates were deemed or taken to have under provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Name of Director	Capacity/ Nature of interest	Number of Shares Interested (Long position)	Approximate percentage of the issued Shares of the Company as at the Latest Practicable Date
Ms. Cheung Kwan	Beneficial owner	1,700,000,000 <i>(Notes 1, 3)</i>	18.23%
	Interest of a controlled corporation	2,000,000,000 <i>(Note 2)</i>	21.44%
Mr. Liu Hu	Beneficial owner	50,000,000 <i>(Note 3)</i>	0.54%
Mr. Anthony Espina	Beneficial owner	9,000,000 <i>(Note 3)</i>	0.10%
Mr. Wang Dayong	Beneficial owner	90,000,000 <i>(Note 3)</i>	1.00%

Notes:

1. Ms. Cheung Kwan owns 1,450,000,000 Shares as beneficial owner, and was granted 250,000,000 share options, details of which was set out in Note 3.
2. Internet Finance Investment Co. Ltd. (i.e. the Bondholder) holds 1,000,000,000 Shares as beneficial owner, and holds the Outstanding Convertible Bonds which is convertible to 1,000,000,000 Shares upon full exercise of its conversion rights. As Ms. Cheung Kwan owns the entire shareholding interest in the Bondholder, Ms. Cheung Kwan is deemed to be interested in 2,000,000,000 Shares.
3. A share option scheme was adopted by the Company on 26 June 2017. The following table sets forth the details of the share options granted to the Directors:

Name of Director	Date of Grant	Exercise period of the share options	Exercise price	Number of share options granted
Ms. Cheung Kwan	27 July 2017	27 July 2017 to 26 July 2020 (both dates inclusive)	HK\$0.15	250,000,000
Mr. Liu Hu	29 November 2017	29 November 2017 to 28 November 2020 (both dates inclusive)	HK\$0.15	50,000,000
Mr. Anthony Espina	27 July 2017	27 July 2017 to 26 July 2020 (both dates inclusive)	HK\$0.15	9,000,000
Mr. Wang Dayong	7 September 2018	7 September 2018 to 6 September 2021 (both dates inclusive)	HK\$0.15	90,000,000

As at the Latest Practicable Date, save as disclosed above, none of the Directors is a director or employee of a company which has, or is deemed to have, an interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there is no existing or proposed service contract between any of the Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. INTERESTS IN CONTRACT OR ARRANGEMENT

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

5. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2018, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the controlling Shareholders or their respective associates had any interests in businesses which compete or may compete with the business of the Group or had any other conflict of interests which any such person has or may have with the Group.

7. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL ADVERSE CHANGE

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 statements of the Group were made up).

9. EXPERT AND CONSENT

- (a) The following is the qualification of the Independent Financial Adviser, who has been named in this circular and has given opinions and advices which are contained in this circular:

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

- (b) As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2018, the date to which the latest audited financial statements of the Group were made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it is included.
- (d) The letter and recommendation from the Independent Financial Adviser are given as of the date of this circular for incorporation herein.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Unit 3201, 32/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM:

- (a) the Subscription Agreement;
- (b) the Prior DOV;
- (c) the Deed of Variation.

NOTICE OF EXTRAORDINARY GENERAL MEETING



ASIA INVESTMENT FINANCE GROUP LIMITED 亞投金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 33)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**EGM**”) of Asia Investment Finance Group Limited (the “**Company**”) will be held at Unit 3201, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong on Tuesday, 18 June 2019 at 3:00 p.m. (or immediately after the conclusion or adjournment of the annual general meeting of the Company held at the same place, on the same date and at 2:30 p.m.), to consider and, if thought fit, to pass with or without amendments, the following resolution:

ORDINARY RESOLUTION

“THAT

- (a) the Deed of Variation (as defined in the circular of the Company dated 20 May 2019 (“the “**Circular**”) and a copy of the Deed of Variation has been produced to the EGM and marked “A” and initialed by the chairman of the EGM for the purpose of identification) and all transactions contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the issue of the Additional Convertible Bonds (as defined in the Circular) by the Company pursuant to the Deed of Variation be and is hereby approved;
- (c) subject to The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) consenting to the alteration to the terms and conditions of the outstanding convertible bonds pursuant to the Deed of Variation and the Stock Exchange granting approval for the listing of, and permission to deal in, the Conversion Shares (as defined below), the allotment and issue of ordinary shares of the Company (the “**Conversion Shares**”) which may be allotted and issued upon the exercise of the conversion right attaching to the Convertible Bonds (as defined in the Circular) be and is hereby approved; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (d) any one director of the Company be and is hereby authorised to do all such acts and things as he in his sole and absolute discretion deems necessary, desirable or expedient to implement, give effect to and/or complete the Deed of Variation and the transactions contemplated thereunder and, where required, any amendment of the terms of the Deed of Variation as required by, or for the purposes of obtaining the approval of, relevant authorities or to comply with all applicable laws, rules and regulations.”

By order of the Board
Asia Investment Finance Group Limited
Cheung Kwan
Chairlady and Executive Director

Hong Kong, 20 May 2019

Registered Office:

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman, KY1-1104
Cayman Islands

Principal Place of Business

in Hong Kong:
Unit 3201, 32/F.
Bank of America Tower
12 Harcourt Road, Central
Hong Kong

Notes:

1. In order to determine the eligibility of shareholders to attend and vote at the EGM, the register of members of the Company will be closed from 12 June 2019 to 18 June 2019, both days inclusive, during which no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on 11 June 2019.
2. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.
3. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or materially certified copy of such powers of attorney or authority, must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjourned Meeting.

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. A form of proxy for use at the EGM is enclosed. Whether or not you propose to attend the EGM in person, you are strongly advised to complete and sign the form of proxy in accordance with the instructions printed on it and then deposit with the Company's branch share registrar and transfer office in Hong Kong as indicated above. Returning the completed form of proxy will not preclude you from attending the EGM and voting in person if you so wish.
5. If two or more persons are jointly registered as holders of a share, the vote of the senior person who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names stand on the Company's register of shareholders in respect of the relevant shares.
6. A shareholder holding more than one share entitled to attend and vote at the EGM need not cast the votes in respect of such shares in the same way on any resolution and therefore may vote a share or some or all such shares either for or against a resolution and/or abstain from voting a share or some or all of the shares and, subject to the terms of the instrument appointing any proxy, a proxy appointed under one or more instruments may vote a share or some or all of the shares in respect of which he is appointed either for or against a resolution and/or abstain from voting.

As at the date of this notice, the executive Directors of the Company are Ms. Cheung Kwan, Mr. Sun Yu, Mr. Liu Hu and Ms. Zhao Hong Mei; the non-executive Directors of the Company are Mr. Wang Dayong and Mr. Li Xin; the independent non-executive Directors of the Company are Mr. Anthony Espina, Ms. Jin Xin, and Mr. Wang Jun Sheng.