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If you have sold or transferred all your shares in Anxian Yuan China Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser, the transferee or to the bank manager, the licensed securities dealer or 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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ANXIAN YUAN CHINA HOLDINGS LIMITED

安賢園中國控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0922)

(A) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY TWO (2) SHARES HELD ON THE RECORD DATE; (B) APPLICATION FOR WHITELASH WAIVER; AND (C) NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company



Lego Corporate
Finance Limited

力高企業融資有限公司

Independent financial adviser to the Rights Issue Independent Board Committee,
the Takeovers Code Independent Board Committee and the Independent Shareholders



TUS Corporate
Finance Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

To qualify for the Rights Issue, Shareholders must be registered as members of the Company on the Record Date, which is expected to be Wednesday, 24 June 2020. In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificate(s)) with the Share Registrar by 4:30 p.m. on Wednesday, 17 June 2020. The last day of dealings in the Shares on a cum-rights basis is expected to be Monday, 15 June 2020. The Shares will be dealt with on an ex-rights basis from Tuesday, 16 June 2020.

A letter from the Board is set out on pages 9 to 34 of this circular. A letter from the Rights Issue Independent Board Committee is set out on pages 35 to 36 of this circular. A letter from the Takeovers Code Independent Board Committee is set out on pages 37 to 38 of this circular. A letter from the Independent Financial Adviser, containing its advice to Rights Issue Independent Board Committee, the Takeovers Code Independent Board Committee and the Independent Shareholders, is set out on pages 39 to 74 of this circular.

A notice convening the SGM to be held at 20/F OfficePlus @Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong, on Thursday, 28 May 2020 at 11:00 a.m. is set out on pages SGM-1 to SGM-4 of this circular. A form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Share Registrar as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

The Rights Issue is on a non-underwritten basis. Pursuant to the Company's constitutional documents and the Companies Act of Bermuda, there are no requirements for minimum levels of subscription. The Rights Issue is conditional upon the fulfillment of the conditions as set out in the section headed "Conditions of the Rights Issue" of the "Letter from the Board" in this circular.

Dealings in the Rights Shares in the nil-paid form will take place from Tuesday, 30 June 2020 to Wednesday, 8 July 2020. Any persons contemplating dealings in the Shares prior to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Tuesday, 30 June 2020 to Wednesday, 8 July 2020 (both days inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Share or nil-paid Rights Shares are recommended to consult their own professional advisers.

The Company will implement the following preventive measures at the SGM to safeguard the health and safety of the attending Shareholders, staff and other stakeholders:

- (i) Compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the SGM venue. Any person with a body temperature of over 37.5 degrees Celsius will be requested to stay in an isolated place for completing the voting procedures.
- (ii) All Shareholders, proxies and other attendees are required to complete and submit at the entrance of the SGM venue a declaration form confirming their names and contact details, and confirming that they have not travelled to, or had physical contact with any person who to their best of knowledge has recently travelled to, any affected countries or areas outside Hong Kong (as per guidelines issued by the Hong Kong Government at www.chp.gov.hk/en/features/102742.html) at any time in the preceding 14 days. Any person who does not comply with this requirement will be requested to stay in an isolated place for completing the voting procedures.
- (iii) Every attendee will be required to wear a surgical face mask throughout the SGM. Please note that no masks will be provided at the SGM venue and attendees should bring and wear their own masks.
- (iv) Seating at the SGM will be arranged so as to reduce interaction between participants.
- (v) No refreshments will be served and there will be no corporate gifts.

In the interest of all stakeholders' health and safety and consistent with recent guidelines for prevention and control of COVID-19, the Company reminds 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 inserted, 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 Company will closely monitor the development of the COVID-19 pandemic and any regulations or measures introduced or to be introduced by the Hong Kong Government in relation to COVID-19 pandemic. The Company will ensure that the SGM will be conducted in compliance with the regulations or measures of the Hong Kong Government and Shareholders will not be deprived of their right of voting on the resolutions to be proposed at the SGM. Further announcements, if necessary, will be made by the Company as soon as possible if there is any update to the preventive measures as mentioned above.

29 April 2020

* for identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Announcement”	the announcement dated 25 March 2020 issued by the Company in relation to (among other things) the Rights Issue and the Whitewash Waiver
“Anxian Yuan Zhejiang”	安賢園(浙江)投資管理有限公司 (Anxian Yuan (Zhejiang) Investment Management Company Limited*), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Business Day(s)”	a day (other than public holiday, a Saturday or Sunday and any day on which a tropical cyclone warning no.8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which banks in Hong Kong are generally open for business
“Bye-laws”	the bye-laws of the Company, as amended from time to time
“Capital Injection”	the capital injection of RMB24 million and RMB6 million in the Target Company by Anxian Yuan Zhejiang and the Partners, respectively pursuant to the MOU
“CCASS”	the Central Clearing and Settlement System operated by HKSCC
“Company”	Anxian Yuan China Holdings Limited (安賢園中國控股有限公司*), a company incorporated in Bermuda with limited liability and the issued Shares are listed on the main board of the Stock Exchange (stock code: 922)
“Concert Group”	Mr. H Shi, Mr. J Shi and parties acting in concert (as defined in the Takeovers Code) with any of them
“controlling shareholder(s)”	has the same meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Deeds of Covenants and Undertakings”	the HS Deed of Covenants and Undertakings and the JS Deed of Covenants and Undertakings
“Director(s)”	the director(s) of the Company
“EAF(s)”	the form(s) of application for excess Rights Shares
“Excluded Shareholder(s)”	the Overseas Shareholder(s) whom the Board, after making enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange, considers it necessary or expedient not to offer the Rights Shares to them
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Phase Investment”	investment in the first phase of the commercial cemetery with an aggregate amount of RMB90 million, including the Capital Injection
“Group”	the Company and its subsidiaries, from time to time
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HS Deed of Covenants and Undertakings”	the deed of covenants and undertakings dated 19 March 2020 executed between Mr. H Shi and the Company in relation to the proposed Rights Issue
“Independent Financial Adviser”	TUS Corporate Finance Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, an independent financial adviser appointed by the Company for the purpose of giving recommendations to the Rights Issue Independent Board Committee, the Takeovers Code Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver and as to voting

DEFINITIONS

“Independent Shareholders”	Shareholder(s), other than (i) the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associate; (ii) members of the Concert Group; and (iii) Shareholders who are involved in, or interested in, the Rights issue and/or the Whitewash Waiver
“JS Deed of Covenants and Undertakings”	the deed of covenants and undertakings dated 19 March 2020 (as supplemented on 23 March 2020) executed between Mr. J Shi and the Company in relation to the proposed Rights Issue
“Last Trading Day”	Thursday, 19 March 2020
“Latest Practicable Date”	24 April 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Latest Time for Acceptance”	4:00 p.m. on Monday, 13 July 2020 (or such other time and date as may be determined by the Company), being the latest time for acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	Macau Special Administrative Region of the PRC
“Mr. H Shi”	Mr. Shi Hua, an executive Director and the chairman of the Company and also a substantial Shareholder holding 202,178,000 Shares, representing approximately 22.75% of the issued share capital of the Company as at the Latest Practicable Date
“Mr. J Shi”	Mr. Shi Jun, an executive Director and the chief executive officer of the Company, son of Mr. H Shi and also a Shareholder holding 12,200,000 Shares, representing approximately 1.37% of the issued share capital of the Company as at the Latest Practicable Date
“MOU”	the memorandum of understanding dated 14 March 2020 entered into amongst Anxian Yuan Zhejiang and the Partners

DEFINITIONS

“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Partners”	the two existing owners of the Target Company
“Posting Date”	Friday, 26 June 2020 (or such other date as may be determined by the Company), being the date of despatch of the Prospectus Documents to the Qualifying Shareholders, and the Prospectus to the Excluded Shareholders (as the case may be)
“PRC”	the People’s Republic of China which for the purpose of this circular shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be despatched to the Qualifying Shareholders (and the Excluded Shareholder(s) for information only) on the Posting Date in connection with the Rights Issue
“Prospectus Documents”	the Prospectus, the PAL(s) and the EAF(s)
“Qualifying Shareholder(s)”	the Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date, other than the Excluded Shareholders
“Relevant Period”	the period commencing 6 months proceeding 19 March 2020 (being the date of the Deed of Covenants and Undertakings) and ending on and including the Latest Practicable Date
“Record Date”	Wednesday, 24 June 2020, being the record date to determine the provisional entitlements to the Rights Issue
“Rights Issue”	the proposed issue by way of rights on the basis of three (3) Rights Shares for every two (2) Shares in issue

DEFINITIONS

“Rights Issue Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Chan Koon Yung, Mr. Lum Pak Sum and Mr. Yao Hong, established for the purpose of advising the Independent Shareholders on the Rights Issue
“Rights Share(s)”	up to 1,332,817,890 new Shares proposed to be allotted and issued under the Rights Issue
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held at which resolutions will be proposed to consider, and, if thought fit, to approve, among other things, the Rights Issue and the Whitewash Waiver
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Share Registrar”	Tricor Abacus Limited at Level 54, Hopewell Centre 183 Queen’s Road East, Hong Kong, the Company’s branch share registrar and transfer office in Hong Kong
“Shareholder(s)”	the holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.1 per Rights Share under the Rights Issue
“Target Company”	阜陽市天壽園陵園管理有限公司 (Fuyang Tianshouyuan Cemetery Management Co., Ltd.*), a limited liability company established under the laws of the PRC with a registered capital of RMB10 million, which is wholly-owned by the Partners
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Takeovers Code Independent Board Committee”	an independent committee of the Board comprising all the non-executive Directors, namely Mr. Wang Hongjie, Mr. Chan Koon Yung, Mr. Lum Pak Sum and Mr. Yao Hong, established for the purpose of advising the Independent Shareholders on the Rights Issue and the Whitewash Waiver
“Whitewash Waiver”	the waiver to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of Mr. H Shi to make a mandatory general offer to the Shareholders in respect of all issued Shares not already owned or agreed to be acquired by the Concert Group which may be triggered as a result of (i) the acceptance in full by Mr. H Shi of the provisional allotment of Rights Shares to him pursuant to the HS Deed of Covenants and Undertakings; and/or (ii) Mr. H Shi having applied for and successfully allotted any excess Rights Shares
“Zhejiang Anxian Yuan”	浙江安賢陵園有限責任公司 (Zhejiang Anxian Yuan Company Limited*), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“%”	per cent

* *For identification purposes only*

EXPECTED TIMETABLE

The expected timetable for the Rights Issue is set out below. The expected timetable is indicative only and may be subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.

All time and date references contained in this circular shall refer to Hong Kong local time and dates.

Events	Time and Date
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Latest time for lodging Shares transfer documents to qualify for attendance and voting at SGM	4:30 p.m. on Thursday, 21 May 2020
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Closure of register of members of the Company for attending the SGM (both days inclusive)	Friday, 22 May 2020 to Thursday, 28 May 2020
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Latest date and time for lodging forms of proxy for the purpose of the SGM	11:00 a.m. on Tuesday, 26 May 2020
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Date and time of the SGM	11:00 a.m. on Thursday, 28 May 2020
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Announcement of poll results of SGM	Thursday, 28 May 2020
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Last day of dealings in Shares on a cum-rights basis	Monday, 15 June 2020
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First day of dealings in Shares on an ex-rights basis	Tuesday, 16 June 2020
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Latest time for the Shareholders to lodge Shares transfer documents in order to qualify for the Rights Issue	4:30 p.m. on Wednesday, 17 June 2020
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Closure of register of members of the Company for the Rights Issue (both days inclusive)	Thursday, 18 June 2020 to Wednesday, 24 June 2020
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Record Date for determining entitlements to the Rights Issue	Wednesday, 24 June 2020
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Register of members of the Company re-opens	Friday, 26 June 2020
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Despatch of Prospectus Documents	Friday, 26 June 2020
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First day of dealings in nil-paid Rights Shares	9:00 a.m. on Tuesday, 30 June 2020
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Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Friday, 3 July 2020
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EXPECTED TIMETABLE

Last day of dealings in nil-paid Rights Shares 4:00 p.m. on
Wednesday, 8 July 2020

**Latest time for acceptance of, and
payment for, the Rights Shares 4:00 p.m. on Monday, 13 July 2020**

Announcement of results of the Rights Issue Monday, 27 July 2020

Despatch of refund cheques in relation to wholly
or partially unsuccessful applications
for excess Rights Shares Tuesday, 28 July 2020

Despatch of share certificates for fully paid
Rights Shares Tuesday, 28 July 2020

Commencement of dealings in fully-paid
Rights Shares 9:00 a.m. on Wednesday, 29 July 2020

Designated broker starts to stand in the market
to provide matching service for odd lots of Shares Wednesday, 29 July 2020

Designated broker ceases to stand in the market
to provide matching service for odd lots of Shares Wednesday, 19 August 2020

Effect of bad weather on Latest Time for Acceptance

The Latest Time for Acceptance will not take effect if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning:

- (1) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Monday, 13 July 2020. Instead, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same day; or
- (2) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 13 July 2020. Instead, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance does not take effect on Monday, 13 July 2020, the dates of the events subsequent to the Latest Time for Acceptance mentioned in the expected timetable may be affected. The Company will notify Shareholders by way of announcement(s) on any change to the expected timetable as soon as possible.

LETTER FROM THE BOARD



ANXIAN YUAN CHINA HOLDINGS LIMITED

安賢園中國控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0922)

Executive Directors:

Mr. Shi Hua (*Chairman*)

Mr. Shi Jun (*Chief Executive Officer*)

Mr. Law Fei Shing (*Deputy Chief Executive Officer*)

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Non-executive Director:

Mr. Wang Hongjie

*Head office and principal place
of business in Hong Kong:*

Independent non-executive Directors:

Mr. Chan Koon Yung

Mr. Lum Pak Sum

Mr. Yao Hong

Room 1215, Leighton Centre

77 Leighton Road

Causeway Bay

Hong Kong

29 April 2020

To the Shareholders

Dear Sir or Madam,

**(A) PROPOSED RIGHTS ISSUE
ON THE BASIS OF THREE (3) RIGHTS SHARES FOR
EVERY TWO (2) SHARES HELD ON THE RECORD DATE;
(B) APPLICATION FOR WHITEWASH WAIVER;
AND
(C) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 25 March 2020 in relation to the Rights Issue and the application for Whitewash Waiver.

* for identification purpose only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information on the Rights Issue and the Whitewash Waiver; (ii) a letter of recommendation from the Rights Issue Independent Board Committee in respect of the Rights Issue; (iii) a letter of recommendation from the Takeovers Code Independent Board committee in respect of the Rights Issue and the Whitewash Waiver; (iv) a letter of advice from the Independent Financial Adviser in relation to the Rights Issue and the Whitewash Waiver; (v) other information required pursuant to the Listing Rules and the Takeovers Code in relation to the Rights Issue and the Whitewash Waiver; and (vi) a notice of the SGM.

PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place with the terms set out as follows:

Issue statistic

Basis of the Rights Issue	: Three (3) Rights Shares for every two (2) Shares held on the Record Date
Subscription Price	: HK\$0.1 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	: 888,545,260 Shares
Total number of Rights Shares	: Up to 1,332,817,890 Rights Shares (assuming no further Shares will be issued or repurchased on or before the Record Date)
Number of Rights Shares being undertaken by Mr. H Shi and Mr. J Shi	: 303,267,000 Rights Shares are undertaken by Mr. H Shi and 18,300,000 Rights Shares are undertaken by Mr. J Shi
Gross proceeds to be raised from the Rights Issue	: From approximately HK\$32.2 million to approximately HK\$133.3 million

Assuming there is no change in the number of issued Shares on or before the Record Date, the maximum number of 1,332,817,890 Rights Shares to be issued represents:

- (a) 150% of the number of issued Shares (based on the Company's issued share capital as at the Latest Practicable Date); and
- (b) 60% of the enlarged issued share capital of the Company immediately following completion of the Rights Issue.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company did not have any derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares. The Company also has no intention to issue or grant any convertible securities, options and/or warrants on or before the Record Date.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must:

- (i) be registered as a member of the Company at the close of business on the Record Date; and
- (ii) be a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, transfer documents (together with the relevant share certificates) must be lodged with the Share Registrar no later than 4:30 p.m. on Wednesday, 17 June 2020.

Closure of register of members

The register of members of the Company will be closed from Thursday, 18 June 2020 to Wednesday, 24 June 2020 (both dates inclusive) for determining the entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

Rights of Overseas Shareholders

As at the Latest Practicable Date, based on the register of members of the Company, the Overseas Shareholders are as follows:

Number of Overseas Shareholders	Jurisdiction of the registered address of the Overseas Shareholders	Number of Shares held
11	PRC	84,050,020
2	Macau	160

Each of the Overseas Shareholders represents less than 5% of the total issued Shares as at the Latest Practicable Date.

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company has complied with Rule 13.36(2)(a) of the Listing Rules and has made enquiries regarding the feasibility of extending the offer of the Rights Shares to Overseas Shareholders.

LETTER FROM THE BOARD

Having made reasonable enquiries of the legal requirements regarding the feasibility of extending the Rights Issue to the Overseas Shareholders with registered addresses (as shown in the register of members of the Company) in the jurisdiction set out in the above in compliance with Rule 13.36(2)(a) of the Listing Rules and taking into account the legal advice provided by the legal adviser as to PRC law engaged by the Company, the Directors are of the view that it is expedient not to extend the Rights Issue to Overseas Shareholders with registered addresses in PRC given the expenses and effort which may be incurred or involved in compliance with the relevant regulatory requirements in the PRC, and hence, the Overseas Shareholders with registered addresses (as shown in the register of members of the Company on the Record Date) in the PRC shall be Excluded Shareholders. On the other hand, based on the advice provided by the legal advisers as to the laws of the Macau, as at the Latest Practicable Date, the laws of the Macau impose no restrictions on extending the Rights Issue to such Overseas Shareholders with registered addresses in Macau, and the Company is not required to obtain any approvals for the despatch of the Prospectus Documents to such Overseas Shareholders with registered addresses in Macau. Accordingly, Overseas Shareholders with registered addresses (as shown in the register of members of the Company as at the Record Date) in Macau was not considered as Excluded Shareholder.

The Company will send copies of the Prospectus to the Excluded Shareholders for their information only, but will not send the PAL or EAF to them.

Subscription Price

The Subscription Price is HK\$0.1 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (a) a discount of approximately 32.89% to the equivalent closing price of HK\$0.149 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 18.09% to the theoretical ex-rights price of approximately HK\$0.122 per Share based on the benchmarked price, being the average closing price of HK\$0.155 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 35.57% to the average closing price of HK\$0.155 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 15.97% based on the closing price of HK\$0.119 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

LETTER FROM THE BOARD

- (e) a discount of approximately 84.86% to the net asset value of approximately HK\$0.660 per Share based on the unaudited equity attributable to owners of the Company of approximately HK\$586.8 million as at 30 September 2019 and 888,545,260 Shares;
- (f) a discount of approximately 85.46% to the net asset value of approximately HK\$0.688 per Share based on the audited equity attributable to owners of the Company of approximately HK\$611.0 million as at 31 March 2019 and 888,545,260 Shares; and
- (g) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 21.34% of the theoretical diluted price of HK\$0.122 per Share to the benchmarked price of HK\$0.155 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.149 per Share and the average closing price of HK\$0.155 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day).

The Subscription Price was determined with reference to the average closing price of HK\$0.155 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the date of the Deeds of Covenants and Undertakings, and having considered (i) the financial conditions of the Company; (ii) that the outbreak of Coronavirus Disease 2019 (“**COVID-19**”) has intensified the economic uncertainties and market instability in Hong Kong and the PRC and contributing to the decline in investment sentiment; (iii) the reasons and benefits of Rights Issue as discussed in the paragraph headed “Reasons for the Rights Issue and use of proceeds” under the section headed “Proposed Rights Issue” in this circular; and (iv) that the other recent rights issues conducted in the market were also with subscription prices at a discount to the then prevailing prices of shares of the respective companies. In light of the above, the Board considered it appropriate to set the Subscription Price at a discount to the recent closing prices of the Shares prior to the Last Trading Day in order to lower the investment cost of the Shareholders so as to encourage them to take up their entitlements to maintain their respective pro-rata shareholding interest in the Company, thereby minimising the dilution impact on their shareholding interest.

Notwithstanding that the Subscription Price represents a discount to the net asset value per Share as at 31 March 2019 and 30 September 2019, in determining the terms of the Rights Issue, the Company strives to set a reasonable subscription price that reflects a balance between the inherent value and the market price of the Shares and conduct the Rights Issue on terms which are favourable to the Company and its Shareholders. Given that (i) the Shares have always been trading at a deep discount to the net asset value per Share throughout the past 12 months; (ii) each Qualifying Shareholder will be entitled to subscribe for the Rights Shares at the same Subscription Price in proportion to his/her/its shareholding interest held on the Record Date; (iii) the Subscription Price has been set at a discount to the recent closing prices of the Share as quoted on the Stock Exchange with an objective to lower the investment costs of the existing Shareholders to encourage them to take up their entitlements under the Rights Issue and to

LETTER FROM THE BOARD

participate in the potential growth of the Company; and (iv) the proceeds from the Rights Issue can finance the potential investment of the Group and help improve the financial position of the Group, the Board (including the Rights Issue Independent Board Committee and the Takeovers Code Independent Board Committee after taking into account of the Independent Financial Adviser's opinion) considers that the terms of the Rights Issue (including the Subscription Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Basis of provisional allotments

The basis of the provisional allotment shall be three (3) Rights Shares (in nil-paid form) for every two (2) Shares held by the Qualifying Shareholders as at the close of business on the Record Date.

Application for all or any part of a Qualifying Shareholder's provisional allotment shall be made by completing a PAL and lodging the same with remittance for the Rights Shares accepted with the Share Registrar by 4:00 p.m. on Monday, 13 July 2020.

Fractional entitlements to the Rights Shares

The Company will not provisionally allot and will not accept application for any fractions of the Rights Shares. All fractions of the Rights Shares will be aggregated (and rounded down to the nearest whole number) and sold by the Company in the open market if a premium (net of expenses) can be obtained, and the Company will keep the net proceeds for its own benefit. Any unsold fractions of the Rights Shares will be aggregated and made available for excess application by the Qualifying Shareholders.

Odd lot arrangement

In order to facilitate the trading of odd lots of the Shares arising from the Rights Issue, a designated broker will be appointed to match the purchase and sale of odd lots of the Shares at the relevant market price per Share for the period from Wednesday, 29 July 2020 to Wednesday, 19 August 2020 (both days inclusive). Holders of odd lots of the Shares should note that successful matching of the sale and purchase of odd lots of the Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult his own professional advisers. Details of the odd lot arrangement will be provided in the Prospectus.

Status of the Rights Shares

The Rights Shares, when issued and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of issue of the Rights Shares.

LETTER FROM THE BOARD

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for, by way of excess application: (i) any unsold entitlements to the Rights Shares of the Excluded Shareholder(s) (if any); (ii) any unsold Rights Shares created by aggregating fractions of the Rights Shares; and (iii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renouncees or transferees of nil-paid Rights Shares. (i) to (iii) are collectively referred to as “Untaken Rights”.

Applications for excess Rights Shares may be made by completing an EAF and lodging the same with a separate remittance for the full amount payable for the excess Rights Shares being applied for. The Directors will allocate any excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (i) subject to availability, the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for excess application on a pro rata basis based on the number of Shares held by the Qualifying Shareholders on the Record Date;
- (ii) no reference will be made to the Rights Shares subscribed through applications by PALs; and
- (iii) no preference will be given to applications for topping up odd-lot holdings to whole-lot holdings.

Pursuant to Rule 7.21(3)(b) of the Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by any controlling shareholders or its associates (together, the “**Relevant Shareholders**”), whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders’ applications for excess Rights Shares to the extent that the total number of excess Rights Shares they have applied for exceeds a maximum number equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares. For the purpose of the Rights Issue, the Company will consider the excess application(s) of the Concert Group in accordance with Rule 7.21(3)(b).

If the aggregate number of Rights Shares underlying the Untaken Rights is greater than the aggregate number of excess Rights Shares being applied for under EAFs, the Directors will allocate to each Qualifying Shareholder who applies for excess Rights Shares the actual number of excess Rights Shares being applied for.

LETTER FROM THE BOARD

Mr. H Shi confirmed that he intends to apply for excess Rights Shares if there is an undersubscription of the Rights Issue. Pursuant to Rule 7.21(3)(b), assuming (i) there is no change in the number of issued Shares on or before the Record Date; and (ii) Mr. H Shi and Mr. J Shi had taken up in full the Rights Shares allotted to them under their respective assured entitlement to the Rights Shares, the maximum number of excess Rights Shares that Mr. H Shi may apply for would be 1,011,250,890 Rights Shares.

The Deeds of Covenants and Undertakings

HS Deed of Covenants and Undertakings

On 19 March 2020 (after trading hours of the Stock Exchange), the Company entered into the HS Deed of Covenants and Undertakings with Mr. H Shi, whereupon Mr. H Shi had irrevocably undertaken to the Company:

- (i) prior to the close of the Rights Issue, not to offer for sale, sell, transfer, contract to sell or otherwise dispose of any of (i) the 202,178,000 Shares ultimately beneficially held by him as at the date of the HS Deed of Covenants and Undertakings or (ii) the nil-paid rights pertaining to the 303,267,000 Rights Shares provisionally allotted to him;
- (ii) the 202,178,000 Shares registered in his name and/or under the name(s) of his nominee(s) as at the date of the HS Deed of Covenants and Undertakings shall remain registered in his name and/or under the name(s) of his nominee(s) on the Record Date and until the close of the Rights Issue;
- (iii) to apply for the Whitewash Waiver;
- (iv) subject to having obtained the Whitewash Waiver, to accept in full the Rights Shares to be provisionally allotted to him pursuant to the Rights Issue by lodging the PAL accompanied by cheques or cashier order drawn on a licensed bank in Hong Kong for the full amount payable in respect of such Rights Shares, which shall amount to HK\$30,326,700; and
- (v) not to carry out any act (including any acquisition of voting rights by him or any parties acting in concert (as defined in the Takeovers Code) with him) that would render the Whitewash Waiver not being granted by the Executive or being revoked if granted.

JS Deed of Covenants and Undertakings

On 19 March 2020 (after trading hours of the Stock Exchange) (as supplemented on 23 March 2020), the Company entered into the JS Deed of Covenants and Undertakings with Mr. J Shi, whereupon Mr. J Shi had irrevocably undertaken to the Company:

LETTER FROM THE BOARD

- (i) prior to the close of the Rights Issue, not to offer for sale, sell, transfer, contract to sell or otherwise dispose of any of (i) the 12,200,000 Shares ultimately beneficially held by him as at the date of the JS Deed of Covenants and Undertakings or (ii) the nil-paid rights pertaining to the 18,300,000 Rights Shares provisionally allotted to him;
- (ii) the 12,200,000 Shares registered in his name and/or under the name(s) of his nominee(s) as at the date of the JS Deed of Covenants and Undertakings shall remain registered in his name and/or under the name(s) of his nominee(s) on the Record Date and until the close of the Rights Issue;
- (iii) subject to having obtained the Whitewash Waiver, to accept in full the Rights Shares to be provisionally allotted to him pursuant to the Rights Issue by lodging the PAL accompanied by cheques or cashier order drawn on a licensed bank in Hong Kong for the full amount payable in respect of such Rights Shares, which shall amount to HK\$1,830,000; and
- (iv) not to carry out any act (including any acquisition of voting rights by him or any parties acting in concert (as defined in the Takeovers Code) with him) that would render the Whitewash Waiver not being granted by the Executive or being revoked if granted.

Pursuant to the Deeds of Covenants and Undertakings, the Company has also undertaken to Mr. H Shi and Mr. J Shi that:

- (i) the Rights Issue shall be conditional upon the conditions set out in the paragraph headed “Conditions of the Rights Issue” under the section headed “Proposed Rights Issue” in this circular; and
- (ii) the Company will not proceed with the Rights Issue in the event the Whitewash Waiver is not being obtained by Mr. H Shi.

Pursuant to the Deed of Covenants and Undertakings, 303,267,000 Rights Shares are undertaken by Mr. H Shi and 18,300,000 Rights Shares are undertaken by Mr. J Shi. Assuming no other Shareholder accepts the provisional allotment of Rights Shares, upon completion of the Rights Issue, the maximum potential controlling holding of the Company’s voting rights will be held by the Concert Group at approximately 69.65% and by Mr. H Shi as to 68.28%. As such holding exceeds 50% of the Company’s voting rights at the completion of the Rights Issue, Mr. H Shi may thereafter further increase his holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

LETTER FROM THE BOARD

Share certificates and refund cheques for the Rights Issue

Subject to fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be sent on or about Tuesday, 28 July 2020 by ordinary post to the allottees, at their own risk, to their registered addresses. Refund cheques in respect of wholly or partially unsuccessful applications for the excess Rights Shares (if any) are expected to be sent on or about Tuesday, 28 July 2020 by ordinary post to the applicants, at their own risk, to their registered addresses.

Application for listing

The Company will apply to the Stock Exchange for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, which are registered in the branch register of members of the Company in Hong Kong will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

Taxation

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising their rights in, disposing of or dealing in the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding the Excluded Shareholders, their receipt of the net proceeds, if any, from sale of the nil-paid Rights Shares on their behalf. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of any person resulting from the purchase, holding or disposal of, or dealing in, the Rights Share in both their nil-paid and fully-paid forms.

LETTER FROM THE BOARD

Non-underwritten basis

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event there is an undersubscription of the Rights Issue, the size of the Rights Issue will be reduced accordingly.

The legal adviser of the Company has confirmed that there are no applicable statutory requirements under the Companies Act 1981 of Bermuda regarding minimum subscription levels in respect of the Rights Issue.

Mr. H Shi's obligation to make a general offer under the Takeovers Code will be triggered as a result of the acceptance in full by him of the provisional allotment of Rights Shares to him pursuant to the HS Deed of Covenants and Undertakings and/or the allotment of excess Rights Shares to Mr. H Shi upon successful excess application when there is an undersubscription of the Rights Issue. As disclosed in the paragraph headed "Conditions of the Rights Issue" under the section headed "Proposed Rights Issue" in this circular, it is a condition of the Rights Issue to have the Executive having granted (and such grant not having been withdrawn) the Whitewash Waiver to Mr. H Shi prior to the Posting Date.

Apart from Mr. H Shi, any other Shareholder who applies to take up all or part of his entitlement under the PAL or apply for excess Rights Shares under the EAF may also unwittingly incur an obligation to make a general offer under the Takeovers Code, unless a waiver from the Executive has been obtained.

Accordingly, the Rights Issue will be made on the term that the Company will provide for Shareholders (except Mr. H Shi, who will apply for the Whitewash Waiver from the Executive to waive the obligation to make a general offer under the Takeovers Code) to apply on the basis that if the Rights Shares are not fully taken up, the applications of any Shareholder (other than Mr. H Shi) for his entitlement under the PAL or for excess Rights Shares under the EAF will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code.

Conditions of the Rights Issue

The Rights Issue will be conditional upon:

- (a) the passing of the necessary resolutions by the Independent Shareholders at the SGM approving, among other things, (i) the Rights Issue, including the allotment and issue of the Rights Shares (in their nil-paid and fully paid forms); and (ii) the Whitewash Waiver on or before the Posting Date;

LETTER FROM THE BOARD

- (b) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Posting Date;
- (c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Posting Date;
- (d) the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and permission to deal in the Shares as well as the Rights Shares in nil-paid and fully-paid forms by no later than Tuesday, 30 June 2020 (or such other date as may be determined by the Company) and Wednesday, 29 July 2020 (or such other date as may be determined by the Company) respectively, being the first day of their dealings;
- (e) there being no breach of the obligations of Mr. H Shi and Mr. J Shi under the Deeds of Covenants and Undertakings prior to the Latest Time for Acceptance; and
- (f) the Executive having granted (and such grant not having been withdrawn) the Whitewash Waiver to Mr. H Shi prior to the Posting Date, and the satisfaction of all conditions (if any) attached thereto.

The conditions are incapable of being waived. If any of the above conditions is not satisfied at or prior to the respective time stipulated therein, the Rights Issue will not proceed. As at the Latest Practicable Date, none of the above conditions had been satisfied

WARNING OF THE RISKS OF DEALING IN THE SHARES AND/OR RIGHTS SHARES IN NIL-PAID FORM

The Rights Issue is subject to the fulfilment of conditions including, among other things, the Stock Exchange granting the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms and the Executive granting the Whitewash Waiver to Mr. H Shi. Please refer to the paragraph headed “Conditions of the Rights Issue” under the section headed “Proposed Rights Issue” in this circular. Shareholders and potential investors of the Company should note that if the conditions to the Rights Issue are not satisfied, the Rights Issue will not proceed.

LETTER FROM THE BOARD

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders or transferees of nil-paid Rights Shares will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

Any dealings in the Shares up to the date on which all conditions of the Rights Issue are fulfilled, and any Shareholders dealing in the Rights Shares in nil-paid form will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or Rights Shares in their nil-paid form are recommended to consult their professional advisers.

Reasons for the Rights Issue and use of proceeds

Use of proceeds

Assuming that there is no change in the number of issued Shares on or before the Record Date, the net proceeds from the Rights Issue (after deduction of estimated professional fees and other related expenses of approximately HK\$1.3 million) will not be less than approximately HK\$30.9 million and not more than approximately HK\$132.0 million.

Assuming the net proceeds is approximately HK\$132.0 million, the Group intend to apply (i) approximately 62.0% or HK\$81.8 million of the net proceeds from the Rights Issue to the First Phase Investment as stated in the MOU below in order to increase the cemetery reserve of the Group and improve local customer sourcing network; (ii) approximately 22.0% or HK\$29.0 million of the net proceeds from the Rights Issue for repayment of existing debts and payables with an intention to improve the Group's financial position, gearing and liquidity; and (iii) approximately 16.0% or HK\$21.2 million of the net proceeds from the Rights Issue for general working capital.

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event there is an undersubscription of the Rights Issue, the size of the Rights Issue will be reduced accordingly. If the net proceeds of the Rights Issue is subsequently reduced to its minimum of approximately HK\$32.2 million, the Group intends to apply all of the net proceeds from the Rights Issue to the First Phase Investment, which will also be funded by internal resources and, if necessary, bank borrowings.

LETTER FROM THE BOARD

Memorandum of understanding in relation to possible investment and reasons for and benefits of the investment

The Company is an investment holding company and its subsidiaries are principally engaged in the development and operation of cemeteries in the PRC. The Company intends to continue to focus on its cemetery business which the Directors believe will grow steadily in view of the aging PRC population, the continuous economic growth of the PRC and the enhanced spending power of PRC residents, which is in line with the strategy stated in the annual report of the Company for the year ended 31 March 2019 that the Group will adhere to its initial intention to capture the growth opportunities in the funeral industry from the urbanisation and aging population in the PRC.

On 14 March 2020, Anxian Yuan Zhejiang and the Partners entered into a non-legally binding memorandum of understanding in relation to possible investment by Anxian Yuan Zhejiang in 阜陽市天壽園陵園管理有限公司 (Fuyang Tianshouyuan Cemetery Management Co., Ltd.*) by way of capital injection and its development of a commercial cemetery (經營性公墓), subject to the entering into of the formal agreement. The Partners worked in 蘇州皇冠山公墓 (Suzhou Crown Hill Cemetery*) as the director assistant and sales manager, with 4 and 13 years of experience in the cemetery business, respectively.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquires, the Partners are not Shareholders and are independent of the Company and its connected persons.

The Target Company is a limited liability company established under the laws of the PRC on 8 August 2019 with a registered capital of RMB10 million and wholly-owned by the Partners. It is principally engaged in cemetery management services, funeral, etiquette service, worship service, tombstone, funeral supplies sales, and landscaping business. The Target Company has obtained relevant government approval to develop a commercial cemetery by phases with a total investment of approximately RMB450 million to expand its cemetery construction and management business. The commercial cemetery will be located at Oudong District, Fuyang City, Anhui Province with a construction land area of approximately 169,413.42 square metres and a construction floor area of approximately 7,800 square metres including an integrated service complex of approximately 4,000 square metres, a funeral hall of approximately 3,000 square metres and a car park of approximately 800 square metres. The commercial cemetery will accommodate 30,000 traditional burial plots and ecological burial plots and features rockery, gazebo, carved columns, life release pond (放生池), etc.

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Pursuant to the MOU, Anxian Yuan Zhejiang and the Partners have agreed to invest in the first phase of the commercial cemetery with an aggregate amount of RMB90 million (including the existing registered capital of the Target Company of RMB10 million which has not yet been paid up as at the Latest Practicable Date), of which Anxian Yuan Zhejiang and the Partners shall invest RMB24 million and RMB6 million in the Target Company, respectively. Upon completion of the Capital Injection and the First Phase Investment, the registered capital of the Target Company shall be increased from RMB10 million to RMB30 million while the respective shareholding of the Company and the Partners will be 80% and 20%, among which, the Partners will own 19.8% and 0.2% of the Target Company, respectively.

In addition, each of the shareholders of the Target Company is required to invest in the Target Company, based on their pro-rata shareholding interest in the Target Company after the Capital Injection, i.e. RMB60 million being the difference between the total first phase investment of RMB90 million and the total paid up capital after the Capital Injection of RMB30 million, for the development of the Target Company. Upon completion of the first phase of the commercial cemetery, it is expected that the commercial cemetery will record operating cash inflow which will then be utilised to develop the commercial cemetery continuously.

The Company and the Partners shall use their respective best endeavours to negotiate the terms of the investment agreement and enter into a legally binding formal agreement (the “**Formal Agreement**”) for the investments in the Target Company and/or the commercial cemetery.

According to the MOU, the Company and the Partners should enter into the Formal Agreement within six months from the date of the MOU, being 14 March 2020. The six months period will expire on 13 September 2020. As at the Latest Practicable Date, the Company is conducting due diligence on the Target Company, and has obtained and reviewed certain information, including but not limited to (i) certain approval in relation to the cemetery by the relevant local government bodies; (ii) the financial information of the Target Company; and (iii) the business and development plan of the cemetery.

As at the Latest Practicable Date, the due diligence process is still on-going, while some due diligence work, such as physical site inspection was scheduled at a later stage in view of the outbreak of COVID-19 where the PRC government requested the slowdown of non-essential travel across the country. In view of the latest due diligence result and the recent negotiation between the Company and the Partners, the Directors are optimistic on entering into of the Formal Agreement once the remaining due diligence can be completed, including the physical site inspection and in any event within six months from the date of the MOU.

The Board wishes to emphasise that the MOU is non-legally binding and the Formal Agreement may or may not be signed. The investment in the Target Company and/or the commercial cemetery may or may not proceed and Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

LETTER FROM THE BOARD

Need of funding

As at 30 September 2019, the Group had cash and cash equivalents of approximately HK\$49.2 million. Given the Group does not currently have the necessary financial resources for financing the First Phase Investment, the Company would need to raise new funds to finance the investment and to achieve its business objectives and to capture the potential increase in demand in the Group's services and products.

According to the recent discussion between the Group and the Partners, the Partners indicated that they would like to ensure that the Group has sufficient financial resource for the First Phase Investment before entering into the Formal Agreement with the Company. In addition, if the Company only begins to seek funding after entering into the Formal Agreement, the time it requires for the Company to do so (including the time to complete necessary regulatory procedures/approvals, if applicable) may cause significant delay in the First Phase Investment. The Company would also be at risk of breaching the Formal Agreement if it fails to obtain sufficient funding after entering into the Formal Agreement. In view of the above, the Directors consider that it is more prudent to raise funds in advance for preparation of the potential investment, in order to avoid shortage in funding and hence breaching its obligation in the Formal Agreement.

In the unfortunate event that the investment under the MOU does not materialise, the Company intends to utilise the net proceeds from the Rights Issue originally allocated for the First Phase Investment for other similar investment opportunity(ies). It is the Group's business strategy to expand its network and establish foothold in cities with promising market prospects and rich resources in funeral project and service. Accordingly, the Company has been seeking investment opportunities throughout the PRC from time to time. In determining the potential opportunities in strategic investment for the purpose of increasing the cemetery reserve of the Group and improving local customer sourcing network, the Company will take into consideration factors including (i) alignment with the Group's strategic plans; (ii) size of cemetery reserve; (iii) potential of local customer sourcing network; (iv) market position; (v) experience of management team; and (vi) historical operating metrics and financial performance. Notwithstanding that the investment under the MOU may not materialise, the Directors consider there exists an imminent need for the Company to timely raise funds to pursue the aforesaid opportunities for the continuous growth of the Group's business. As at the Latest Practicable Date, the Company has involved in early discussion in relation to two potential opportunities in strategic investment. The Directors consider that the Company will be in a better position to negotiate with potential counterparties with a stronger liquidity position to capture any opportunities in a timely manner after the Rights Issue. In such unfortunate event that the investment under the MOU does not materialise, the Group intends to apply (i) approximately 62.0% or HK\$81.8 million of the net proceeds from the Rights Issue to the aforementioned potential opportunity(ies) in strategic investment; (ii) approximately 22.0% or HK\$29.0 million of the net proceeds from the Rights Issue for repayment of existing debts and payables; and (iii) approximately 16.0% or HK\$21.2 million of the net proceeds from the Rights Issue for general working capital. Further announcement(s) will be made by the Company to update the Shareholders with details of these investments as and when appropriate pursuant to the requirements of the Listing Rules.

LETTER FROM THE BOARD

In light of the above, the Directors are of the view that the Rights Issue provides financial flexibility for the Company to fund the First Phase Investment or capture any potential investment opportunities, which is in line with the Group's business objective, and thus, in the interests of the Company and the Shareholders as a whole.

Fund raising alternatives

The Directors have considered other financing alternatives including (i) additional debt financing; and (ii) equity fund raising such as placement of the Shares and open offer. The Directors are of the view that while additional debt financing will increase the Group's gearing ratio, it will also increase the ongoing interest expenses of the Group which may in turn affect the profitability of the Company. As for equity fund raising, such as placement of Shares, it is a common market practice to conduct such activity on a best-effort basis and accordingly the amount to be raised would be uncertain and subject to the then market conditions. In addition, for placement of new Shares, it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company. As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate in, but it does not allow the trading of rights entitlements in the open market. The Directors are of the view that the Rights Issue provides better financial flexibility for the Company as it will strengthen the capital base of the Company, thus enhancing its net asset position without the ongoing burden of interest expenses, and also offer all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company and avoid shareholding dilution for those Shareholders who take up their entitlement under the Rights Issue in full. Taking into account the costs and benefits of each of the alternatives as compared with the Rights Issue, the Directors consider raising funds by way of the Rights Issue is more attractive and feasible in the current market condition, and thus, in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Previous fund raising exercise involving issue of securities in the prior 12-month period

Save as set out below, the Company has not completed any equity fund raising activities in the twelve (12) months immediately prior to the Latest Practicable Date.

Date of announcement	Fund raising activity	Net proceeds	Intended use of proceeds		Actual use of proceeds	
17 December 2019	Placing of new Shares under general mandate	Approximately HK\$21.8 million	(a)	as to approximately 61%, representing approximately HK\$13.4 million, for repayment of existing debts and payables with an intention to improve the Group's financial position, gearing and liquidity; and	(a)	approximately HK\$13.4 million for repayment of existing debts of the Group; and
			(b)	as to approximately 39%, representing approximately HK\$8.4 million, for general working capital of the Group.	(b)	approximately HK\$8.4 million for general working capital of the Group.

LETTER FROM THE BOARD

Effects on the Shareholding Structure of the Company

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Rights Issue (assuming no further Shares will be issued or repurchased from the Latest Practicable Date up to the Record Date):

Immediately after completion of the Rights Issue								
					Assuming only Mr. H Shi and Mr. J Shi had taken up their Rights Shares entitlement and the maximum number of excess Rights Shares (i.e. 1,011,250,890 Shares)			
As at the Latest Practicable Date		Assuming all Shareholders have taken up the Rights Shares		Assuming only Mr. H Shi and Mr. J Shi had taken up their Rights Shares entitlement				
No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares		
Mr. H Shi								
(Notes 1 and 2)	202,178,000	22.75	505,445,000	22.75	505,445,000	41.77	1,516,695,890	68.28
Mr. J Shi (Note 3)	12,200,000	1.37	30,500,000	1.37	30,500,000	2.52	30,500,000	1.37
Sub-total of the								
Concert Group	214,378,000	24.12	535,945,000	24.12	535,945,000	44.29	1,547,195,890	69.65
Mr. Law Fei Shing								
(Note 4)	2,800,000	0.32	7,000,000	0.32	2,800,000	0.23	2,800,000	0.13
Public Shareholders	671,367,260	75.56	1,678,418,150	75.56	671,367,260	55.48	671,367,260	30.22
Total	888,545,260	100.0	2,221,363,150	100.0	1,210,112,260	100.0	2,221,363,150	100.0

Notes:

- The 180,000,000 Shares out of 202,178,000 Shares are held by Master Point Overseas Limited, which is a company incorporated under the laws of the British Virgin Islands, the entire issued share capital of which is legally and beneficially owned by Mr. H Shi, an executive Director. The remaining 22,178,000 Shares out of the 202,178,000 Shares are held by Mr. H Shi in personal interests.
- Mr. H Shi is the chairman of the Company and an executive Director.
- Mr. J Shi is the chief executive officer of the Company and an executive Director. Mr. J Shi is the son of Mr. H Shi.
- Mr. Law Fei Shing is an executive Director.
- Save as disclosed above, none of the Directors have any shareholding in the Company.

LETTER FROM THE BOARD

Information on Mr. H Shi and Mr. J Shi

Mr. Shi Hua, aged 68, was appointed as an executive Director on 20 June 2011. He is also the chairman of the Company and chairman of the Nomination Committee as from 15 December 2011 and 30 March 2012, respectively. Mr. H Shi was the chief executive officer of the Company from 15 December 2011 to 22 January 2014. Mr. H Shi was a teacher of 浙江汽校寧波分校 (Zhejiang Motor School, Ningbo Branch*) from 1976 to 1977. During 1977 to 1990, Mr. H Shi worked for Zhejiang Civil Affairs Bureau and was responsible for the daily office routine of the Civil Affairs Bureau. During 1990 to 1996, Mr. H Shi worked for 杭州富安刺繡服裝廠 (Hangzhou Fu An Embroidery Clothing Factory*) as its manager to oversee the overall day-to-day operation. In 1996, Mr. H Shi established 浙江富安移民經濟開發有限公司 (Zhejiang Fu An Immigration Economic Development Company Limited*) and worked as its chairman and general manager. He was fully responsible for the Company's operational management and investment decisions. In 1999, Mr. H Shi established Zhejiang Anxian Yuan and worked as its chairman of the board of directors and general manager. In 2007, he resigned from Zhejiang Anxian Yuan as general manager but remains as its chairman. Mr. H Shi also has been the president of Funeral Association of Zhejiang Province since September 2018. Mr. H Shi is the father of Mr. J Shi who is an executive Director and the chief executive officer of the Company.

Mr. Shi Jun, aged 38, was appointed as an executive Director and chief executive officer of the Company on 15 December 2011 and 23 January 2014, respectively. From 2003 to 2005, Mr. J Shi worked for 浙江富安移民經濟開發有限公司 (Zhejiang Fu An Immigration Economic Development Company Limited*) as a deputy business manager, and was responsible for business development. From 2005 to 2007, Mr. J Shi worked for Hangzhou Haoletian Etiquette Service Company Limited* (杭州好樂天禮儀服務有限公司) as a deputy general manager responsible for the company's overall business operations. In 2007, Mr. J Shi worked for Zhejiang Anxian Yuan as an assistant general manager and was responsible for the company's human resources and general business plan. He has been the general manager of Zhejiang Anxian Yuan since 2008, and was responsible for the company's overall daily operations. He is currently a director of Zhejiang Anxian Yuan. Mr. J Shi also has been the president of Funeral Association of Hangzhou since May 2018. Mr. J Shi is a son of Mr. H Shi who is an executive Director and the chairman of the Company.

LETTER FROM THE BOARD

Intention of Mr. H Shi

As at the Latest Practicable Date,

- (a) Mr. H Shi intended the Group to continue its current business;
- (b) Mr. H Shi had no intention to introduce any major changes to the Group's existing business (including redeployment of the fixed assets of the Group other than in its ordinary course of business) or terminate the continued employment of the employees of the Group; and
- (c) Mr. H Shi had no intention to inject any new business/assets to the Group.

Mr. H Shi considers the Rights Issue is favourable to the Group as the Group will be able to strengthen its capital base and to enhance its financial position.

On the basis of Mr. H Shi's intention set out above, the Directors are of the view that the continuity of the Group's business can be maintained upon completion of the Rights Issue as before.

IMPLICATIONS UNDER THE LISTING RULES

In accordance with Rule 7.19A(1) of the Listing Rules, as the Rights Issue will increase the issued shares of the Company by more than 50%, the Rights Issue is subject to the approval of the Shareholders at the SGM by way of poll. Pursuant to Rule 7.27A of the Listing Rules, the Rights Issue must be made conditional on approval by the Shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue. As at the Latest Practicable Date, the Company does not have any controlling shareholders. All the executive Directors and the non-executive Director and their respective associates will abstain from voting in favour of the proposed resolution approving the Rights Issue at the SGM.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi, the shareholding interest of Mr. H Shi will increase from approximately 22.8% to 41.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue. Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi; and (iii) Mr. H Shi has applied for and successfully been allotted the maximum excess Rights Shares allowed pursuant to Rule 7.21(3)(b) of the Listing Rules, being 1,011,250,890 Rights Shares, the shareholding interest of Mr. H Shi will increase from approximately 22.8% to 68.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue.

Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi, the aggregate shareholding interest of the Concert Group will increase from approximately 24.1% to 44.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue. Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi; and (iii) Mr. H Shi has applied for and successfully been allotted the maximum excess Rights Shares allowed pursuant to Rule 7.21(3)(b) of the Listing Rules, being 1,011,250,890 Rights Shares, the aggregate shareholding interest of the Concert Group will increase from approximately 24.1% to 69.7% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue.

In such circumstances, the acceptance in full by Mr. H Shi of the provisional allotment of Rights Shares to him pursuant to the HS Deed of Covenants and Undertakings and/or the allotment of excess Rights Shares to Mr. H Shi upon successful excess application when there is an undersubscription of the Rights Issue will trigger an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code for all Shares not already owned or agreed to be acquired by Mr. H Shi and parties acting in concert (as defined in the Takeovers Code) with him, unless a waiver is granted by the Executive.

LETTER FROM THE BOARD

In light of the above, Mr. H Shi had made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has agreed to grant the Whitewash Waiver, which will be subject to, among other things, the approval of the Independent Shareholders of the Whitewash Waiver and Rights Issue at the SGM by way of poll in accordance with the requirements of the Takeovers Code. Save for the Concert Group and Mr. Law (being an executive Director), no Shareholder is required to abstain from voting in favour of the proposed resolution approving the Whitewash Waiver at the SGM. Pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, the Whitewash Waiver is subject to the condition that respective resolutions relating to the Whitewash Waiver and the Rights Issue being approved by at least 75% and more than 50%, respectively of the votes cast by the Independent Shareholders at the SGM.

As at the Latest Practicable Date, the Company did not believe that the Rights Issue will give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules) in Hong Kong. The Company notes that the Executive may not grant the Whitewash Waiver if the Rights Issue does not comply with other applicable rules and regulations in Hong Kong.

SGM

The SGM will be convened and held to consider and, if appropriate, approve the Rights Issue and the Whitewash Waiver each in accordance with the Bye-laws, the Listing Rules and the Takeovers Code. A notice convening the SGM is set out on pages SGM-1 to SGM-5 of this circular.

The voting in respect of the Rights Issue and the Whitewash Waiver will be conducted by way of poll.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Share Registrar, Tricor Abacus Limited at Level 54, 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 the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

Subject to the approval of the Rights Issue and the Whitewash Waiver by Independent Shareholders at the SGM, the Prospectus Documents will be despatched to the Qualifying Shareholders on or before Friday, 26 June 2020 whereas the Prospectus will be despatched to the Excluded Shareholders for information only.

LETTER FROM THE BOARD

PRECAUTIONARY MEASURES FOR THE SGM

The Board has made reference to the “Joint Statement in relation to General Meetings in light of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation” jointly issued by the Stock Exchange and the SFC on 1 April 2020 in relation to the arrangement of the SGM.

Voting by proxy in advance of the SGM

The Company does not in any way wish to diminish the opportunity available to the Shareholders to exercise their rights and to vote, but is conscious of the pressing need to protect the Shareholders from possible exposure to the COVID-19 pandemic. For the health and safety of the Shareholders, the Company would like to encourage Shareholders to exercise their rights to vote at the SGM by appointing the chairman of the SGM as their proxy instead of attending the SGM in person. **Physical attendance is not necessary for the purpose of exercising Shareholders’ rights. Completion and return of the proxy form will not preclude the Shareholders from attending and voting in person at the SGM or any adjournment thereof should they subsequently so wish.**

Preventive measures at the SGM

The Company will implement the following preventive measures at the SGM to safeguard the health and safety of the attending Shareholders, staff and other stakeholders:

- (i) Compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the SGM venue. Any person with a body temperature of over 37.5 degrees Celsius will be requested to stay in an isolated place for completing the voting procedures.
- (ii) All Shareholders, proxies and other attendees are required to complete and submit at the entrance of the SGM venue a declaration form confirming their names and contact details, and confirming that they have not travelled to, or had physical contact with any person who to their best of knowledge has recently travelled to, any affected countries or areas outside Hong Kong (as per guidelines issued by the Hong Kong Government at www.chp.gov.hk/en/features/102742.html) at any time in the preceding 14 days. Any person who does not comply with this requirement will be requested to stay in an isolated place for completing the voting procedures.
- (iii) Every attendee will be required to wear a surgical face mask throughout the SGM. Please note that no masks will be provided at the SGM venue and attendees should bring and wear their own masks.

LETTER FROM THE BOARD

- (iv) Seating at the SGM will be arranged so as to reduce interaction between participants.
- (v) No refreshments will be served and there will be no corporate gifts.

In the interest of all stakeholders' health and safety and consistent with recent guidelines for prevention and control of COVID-19, the Company reminds 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 inserted, 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 Company will closely monitor the development of the COVID-19 pandemic and any regulations or measures introduced or to be introduced by the Hong Kong Government in relation to COVID-19 pandemic. The Company will ensure that the SGM will be conducted in compliance with the regulations or measures of the Hong Kong Government and Shareholders will not be deprived of their right of voting on the resolutions to be proposed at the SGM. Further announcements, if necessary, will be made by the Company as soon as possible if there is any update to the preventive measures as mentioned above.

RECOMMENDATION

The Rights Issue Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Rights Issue and the Takeovers Code Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Rights Issue and the Whitewash Waiver. TUS Corporate Finance Limited has been appointed with the approval of the Rights Issue Independent Board Committee and the Takeovers Code Independent Board Committee as the Independent Financial Adviser to advise the Rights Issue Independent Board Committee, the Takeovers Code Independent Board Committee and the Independent Shareholders on the same.

You are advised to read carefully the letter of recommendation from the Rights Issue Independent Board Committee, the letter of recommendation from the Takeovers Code Independent Board Committee and the letter of advice from the Independent Financial Adviser set out on pages 35 to 36, pages 37 to 38 and pages 39 to 74 respectively of this circular. The Rights Issue Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, the Rights Issue Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions approving the Rights Issue at the SGM.

LETTER FROM THE BOARD

The Takeovers Code Independent Board Committee having taken into account the advice of the Independent Financial Adviser that the terms of the Rights Issue and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Accordingly, the Takeovers Code Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions approving the Rights Issue and the Whitewash Waiver at the SGM.

The Board considers that the Rights Issue and the Whitewash Waiver are in the interest of the Company and the Shareholders as a whole and so recommends all Shareholders to vote in favour of the proposed resolutions approving the Rights Issue and the Whitewash Waiver at the SGM.

ADDITIONAL INFORMATION

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

By Order of the Board
ANXIAN YUAN CHINA HOLDINGS LIMITED
SHI HUA
Chairman

LETTER FROM THE RIGHTS ISSUE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Rights Issue Independent Board Committee to the Independent Shareholders regarding the Rights Issue.



ANXIAN YUAN CHINA HOLDINGS LIMITED

安賢園中國控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0922)

29 April 2020

To the Independent Shareholders

Dear Sirs,

**PROPOSED RIGHTS ISSUE
ON THE BASIS OF THREE (3) RIGHTS SHARES FOR
EVERY TWO (2) SHARES HELD ON THE RECORD DATE**

We refer to the circular dated 29 April 2020 (the “Circular”) of the Company of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of Rights Issue is 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 and to advise the Independent Shareholders on how to vote.

TUS Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of the advice from the Independent Financial Adviser, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 39 to 74 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 9 to 34 of the Circular and the additional information set out in the appendices to the Circular.

* for identification purpose only

LETTER FROM THE RIGHTS ISSUE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Rights Issue and the letter from the Independent Financial Adviser, we consider that the terms of the Rights Issue is 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 ordinary resolution to be proposed to approve the Rights Issue at the SGM respectively.

Yours faithfully,

Rights Issue Independent Board Committee

Mr. Chan Koon Yung

Mr. Lum Pak Sum

Mr. Yao Hong

Independent Non-executive Directors

LETTER FROM THE TAKEOVERS CODE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Takeovers Code Independent Board Committee to the Independent Shareholders regarding the Rights Issue and the Whitewash Waiver.



ANXIAN YUAN CHINA HOLDINGS LIMITED

安賢園中國控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0922)

29 April 2020

To the Independent Shareholders

Dear Sirs,

**(A) PROPOSED RIGHTS ISSUE
ON THE BASIS OF THREE (3) RIGHTS SHARES FOR
EVERY TWO (2) SHARES HELD ON THE RECORD DATE; AND
(B) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular dated 29 April 2020 (the “Circular”) of the Company of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of Rights Issue and the Whitewash Waiver 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 and to advise the Independent Shareholders on how to vote.

TUS Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of the advice from the Independent Financial Adviser, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 39 to 74 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 9 to 34 of the Circular and the additional information set out in the appendices to the Circular.

* for identification purpose only

LETTER FROM THE TAKEOVERS CODE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Rights Issue, the Whitewash Waiver and the letter from the Independent Financial Adviser, we consider that the terms of the Rights Issue and the Whitewash Waiver 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 ordinary resolution and the special resolution to be proposed to approve the Rights Issue and the Whitewash Waiver at the SGM, respectively.

Yours faithfully,

Takeovers Code Independent Board Committee

Mr. Wang Hongjie Mr. Chan Koon Yung Mr. Lum Pak Sum Mr. Yao Hong

Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from TUS Corporate Finance Limited to the Rights Issue Independent Board Committee, the Takeovers Code Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver, which has been prepared for the purpose of inclusion in this circular.



15/F, Shanghai Commercial Bank Tower,
12 Queen's Road Central,
Central, Hong Kong

29 April 2020

To: The Rights Issue Independent Board Committee, the Takeovers Code Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE
(3) RIGHTS SHARES FOR EVERY TWO
(2) SHARES HELD ON THE RECORD DATE;
AND
(II) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Rights Issue Independent Board Committee, the Takeovers Code Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 29 April 2020 (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 otherwise defined or the context requires otherwise.

As set out in the Letter from the Board, on 25 March 2020, the Board proposed to implement the Rights Issue on the basis of three (3) Rights Shares for every two (2) Shares held on the Record Date at the Subscription Price of HK\$0.10 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date), to raise up to approximately HK\$133.3 million before expenses by way of issuing up to 1,332,817,890 Rights Shares. The Rights Shares are only available to the Qualifying Shareholders and will not be available to the Excluded Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event there is an undersubscription of the Rights Issue, the size of the Rights Issue will be reduced accordingly. On 19 March 2020, the Company respectively entered into the HS Deed of Covenants and Undertakings with Mr. H Shi and the JS Deed of Covenants and Undertakings with Mr. J Shi, whereupon Mr. H Shi and Mr. J Shi had irrevocably undertaken to the Company that, among other things, subject to Mr. H Shi having obtained the Whitewash Waiver, they will accept in full the Rights Shares proposed to be provisionally allotted to them pursuant to the Rights Issue by lodging the PAL accompanied by cheques or cashier order drawn on a licensed bank in Hong Kong for the full amount payable in respect of such Rights Shares, which shall amount to not less than approximately HK\$32.2 million in aggregate. Mr. H Shi confirmed that he intends to apply for excess Rights Shares if there is an undersubscription of the Rights Issue. Mr. J Shi does not intend to apply for excess Rights Shares if there is an undersubscription of the Rights Shares. Pursuant to the Deeds of Covenants and Undertakings, the Company has also undertaken to Mr. H Shi and Mr. J Shi that, among other things, the Company will not proceed with the Rights Issue in the event the Whitewash Waiver is not being obtained by Mr. H Shi.

LISTING RULES AND TAKEOVERS CODE IMPLICATIONS

In accordance with Rule 7.19A(1) of the Listing Rules, as the Rights Issue will increase the issued shares of the Company by more than 50%, the Rights Issue is subject to the approval of the Shareholders at the SGM by way of poll. Pursuant to Rule 7.27A of the Listing Rules, the Rights Issue must be made conditional on approval by the Shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue. As at the Latest Practicable Date, the Company does not have any controlling shareholders. All the executive Directors and the non-executive Director and their associates will abstain from voting in favour of the proposed resolution approving the Rights Issue at the SGM.

The Company has not conducted any rights issue or open offer within the 12-month period immediately preceding the Latest Practicable Date, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue or open offer within such 12-month period. The Rights Issue does not result in a theoretical dilution effect of 25% or more under Rule 7.27B of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi, the shareholding interest of Mr. H Shi will increase from approximately 22.8% to 41.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue. Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi and (iii) Mr. H Shi has applied for and successfully been allotted the maximum excess Rights Shares allowed pursuant to Rule 7.21(3)(b) of the Listing Rules, being 1,011,250,890 Rights Shares, the shareholding interest of Mr. H Shi will increase from approximately 22.8% to 68.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue. Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi, the aggregate shareholding interest of the Concert Group will increase from approximately 24.1% to 44.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue. Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi; and (iii) Mr. H Shi has applied for and successfully been allotted the maximum excess Rights Shares allowed pursuant to Rule 7.21(3)(b) of the Listing Rules, being 1,011,250,890 Rights Shares, the aggregate shareholding interest of the Concert Group will increase from approximately 24.1% to 69.7% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue.

In such circumstances, the acceptance in full by Mr. H Shi of the provisional allotment of Rights Shares to him pursuant to the HS Deed of Covenants and Undertakings and/or the allotment of excess Rights Shares to Mr. H Shi upon successful excess application when there is an undersubscription of the Rights Issue will trigger an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code for all Shares not already owned or agreed to be acquired by Mr. H Shi and parties acting in concert (as defined in the Takeovers Code) with him, unless a waiver is granted by the Executive.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In light of the above, Mr. H Shi had made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. Pursuant to the Takeovers Code, the Whitewash Waiver will be conditional on, among other things, the approval of the Independent Shareholders of the Whitewash Waiver and Rights Issue at the SGM by way of poll in accordance with the requirements of the Takeovers Code. Save for the Concert Group and Mr. Law Fei Shing (being an executive Director), no Shareholder is required to abstain from voting in favour of the proposed resolution approving the Whitewash Waiver at the SGM. Pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, the Whitewash Waiver is subject to the condition that respective resolutions relating to the Whitewash Waiver and the Rights Issue being approved by at least 75% and more than 50% respectively of the votes cast by the Independent Shareholders at the SGM.

INDEPENDENT BOARD COMMITTEE

The Rights Issue Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Koon Yung, Mr. Lum Pak Sum and Mr. Yao Hong, has been established to advise the Independent Shareholders as to (i) whether the terms of the Rights Issue are fair and reasonable and in the interest of the Shareholders as a whole; and (ii) how to vote on the resolution(s) relating to the Rights Issue.

The Takeovers Code Independent Board Committee comprising the non-executive Director, namely Mr. Wang Hongjie, and all the independent non-executive Directors, namely Mr. Chan Koon Yung, Mr. Lum Pak Sum and Mr. Yao Hong, has been established to advise the Independent Shareholders as to (i) whether the terms of the Rights Issue and the Whitewash Waiver are fair and reasonable and in the interest of the Shareholders as a whole; and (ii) how to vote on the resolution(s) relating to the Rights Issue and Whitewash Waiver.

We, TUS Corporate Finance Limited, have been appointed by the Company as the independent financial adviser to advise the Rights Issue Independent Board Committee, the Takeovers Code Independent Board Committee and the Independent Shareholders in these regards.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal advisory fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the Rights Issue and the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the information, facts and representations contained or referred to in the Circular and the information, opinions and representations provided or expressed to us by the Directors and/or the management of the Company. We have assumed that all information, facts and representations contained or referred to in the Circular, and all information, opinions and representations provided or expressed by the Directors and/or the management of the Company, for which they are solely responsible, are true, accurate and complete in all material respects at the time when they were provided and continue to be so as at the date of the Circular and that they may be relied upon in formulating our opinion and the Shareholders will be notified of any material changes to such information, opinions and/or representation as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all views, opinions and statements of intention or belief provided or expressed by the Directors and the management, advisers and/or representatives of the Company have been arrived at after due and careful enquiries. We consider that we have been provided with, and have reviewed, all currently available information and documents that are available under present circumstances to enable us to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Directors and the management, advisers and/or representatives of the Company nor have we conducted an independent investigation into the business, affairs or future prospects of the Group. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 therein or the Circular misleading. The Directors jointly and severally accept full responsibility for accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have not considered the tax and regulatory implications on the Shareholders of the receipt, purchase, holding, exercising, disposing of or dealing in the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding the Excluded Shareholders, their receipt of the net proceeds, if any, from the sale of the nil-paid Rights Shares on their behalf, since these depend on their individual circumstances. In particular, Shareholders who are subject to Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

The letter is issued for the information of the Rights Issue Independent Board Committee and the Takeovers Code Independent Board Committee solely in connection with their consideration of the Rights Issue and the Whitewash Waiver. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent. Lastly, where information in this letter has been extracted from published or otherwise publicly available sources which are the latest information publicly available to the best of our knowledge, the responsibility of TUS Corporate Finance Limited is to ensure that such information has been substantiated and correctly extracted from the relevant sources, and not been used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Rights Issue, we have considered the following principal factors and reasons:

1. Information on the Group

1.1. Background of the Group

The Company is an investment holding company and its subsidiaries are principally engaged in the business of development and operation of cemeteries and the provision of funeral services and funeral supplies in the PRC.

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1.2. Historical financial performance of the Group

Set out below is a summary of the financial highlight of the Group (i) for the two years ended 31 March 2019 as extracted from the annual report of the Company for the year ended 31 March 2019 (the “**2019 Annual Report**”); and (ii) for the six months ended 30 September 2018 and 2019 as extracted from the interim report of the Company for the six months ended 30 September 2019 (the “**2020 Interim Report**”):

Consolidated statement of profit and loss

	For the year ended 31 March		For the six months ended 30 September	
	2018	2019	2018	2019
	(“FY2018”)	(“FY2019”)	(“1H2019”)	(“1H2020”)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	206,609	223,120	97,904	98,315
Gross profit	154,923	143,634	68,887	66,240
Profit for the year/period	17,290	17,038	9,284	6,416
Profit attributable to owners of the Company	16,730	17,082	9,180	6,726

Comparison of historical results between years/periods for material items

FY2018 and FY2019

The Group’s revenue increased by approximately 8.0% from approximately HK\$206.6 million for FY2018 to approximately HK\$223.1 million for FY2019, primarily due to the generic growth of the Group’s flagship cemetery, Zhejiang Anxian Yuan, coupled with the contributions from two other members of the Group, namely Yin Chuan Fu Shou Yuan and Zunyi Dashenshan.

The Group’s profit for the year decreased slightly by approximately 1.5% from approximately HK\$17.3 million for FY2018 to approximately HK\$17.0 million for FY2019, mainly attributable to (i) the decrease in gross profit of approximately HK\$11.3 million due to the increase in direct cost; (ii) the loss on disposal of a subsidiary and an associate amounting to approximately HK\$3.0 million; and (iii) the write-off of other receivables amounting to approximately HK\$5.0 million, partially net off by the decrease in finance costs of approximately HK\$10.4 million and the increase in other income and gains of approximately HK\$3.3 million in which approximately HK\$2.4 million arose from the gain on disposal of investment properties.

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1H2019 and 1H2020

The Group's revenue increased slightly by approximately 0.4% from approximately HK\$97.9 million for 1H2019 to approximately HK\$98.3 million for 1H2020, which was primarily attributable to the increase in tombs sold from 1,031 for 1H2019 to 1,334 for 1H2020.

The Group's profit for the period decreased by approximately 30.9% from approximately HK\$9.3 million for 1H2019 to approximately HK\$6.4 million for 1H2020, which was mainly attributable to (i) the decrease in gross profit by approximately HK\$2.6 million mainly due to the increase in cost of tombs during 1H2020; and (ii) the increase in income tax expense by approximately HK\$2.1 million in which approximately HK\$2.0 million arose from the decrease in write-back of deferred tax provision during 1H2020, partially net off by the decrease in finance costs of approximately HK\$2.3 million due to the repayment of borrowings by the Group during 1H2020.

Consolidated statement of financial position

	As at 30 September 2019 <i>HK\$'000</i> (unaudited)
Total assets	1,075,193
Total liabilities	452,480
Equity attributable to owners of the Company	586,844
Debt-to-asset ratio	42.1%
Gearing ratio	32.6%

The Group's total assets were approximately HK\$1,075.2 million, which mainly comprised (i) intangible assets of approximately HK\$427.6 million; (ii) cemetery assets of approximately HK\$218.0 million; (iii) inventories of approximately HK\$257.2 million; and (iv) cash and cash equivalents of approximately HK\$49.2 million, and total liabilities of approximately HK\$452.5 million, which mainly comprised (i) interest-bearing bank and other borrowings of approximately HK\$191.1 million; and (ii) deferred tax liabilities of approximately HK\$115.3 million as at 30 September 2019.

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The Group's debt-to-asset ratio, being the ratio of total liabilities over total assets of the Group, was approximately 42.1% as at 30 September 2019. The Group's gearing ratio, being the ratio of total interest-bearing borrowing over total equity attributable to owners of the Company, was approximately 32.6% as at 30 September 2019.

Material change

In order to ascertain whether there were any material change in the Company's financial position which would materially affect our views given below, we have discussed with and obtained from the Company the latest financial information of the Group. Taking into account (i) the disclosures made under the paragraph headed "4. Material Change" as set out in Appendix I to the Circular; and (ii) the latest unaudited management accounts of the Company, we are of the view that our opinion and recommendations as set out below remain unchanged.

2. Principal terms of the Rights Issue

Set out below are the principal terms of the Rights Issue as summarised from the Letter from the Board:

2.1 Issue statistic

Basis of the Rights Issue	:	Three (3) Rights Shares for every two (2) Shares held on the Record Date
Subscription Price	:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	888,545,260 Shares
Total number of Rights Shares	:	Up to 1,332,817,890 Rights Shares (assuming no further Shares will be issued or repurchased on or before the Record Date)
Number of Rights Shares being undertaken by Mr. H Shi and Mr. J Shi	:	321,567,000 Rights Shares, of which 303,267,000 Rights Shares are undertaken by Mr. H Shi and 18,300,000 Rights Shares are undertaken by Mr. J Shi
Gross proceeds to be raised from the Rights Issue	:	From approximately HK\$32.2 million to approximately HK\$133.3 million

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Assuming there is no change in the number of issued Shares on or before the Record Date, the maximum number of 1,332,817,890 Rights Shares to be issued represents:

- (a) 150.0% of the number of issued Shares (based on the Company's issued share capital as at the Latest Practicable Date); and
- (b) 60.0% of the enlarged issued share capital of the Company immediately following completion of the Rights Issue.

As at the Latest Practicable Date, the Company did not have any derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares. The Company also has no intention to issue or grant any convertible securities, options and/or warrants on or before the Record Date.

2.2 Condition of the Rights Issue

The Rights Issue will be conditional upon:

- (a) the passing of the necessary resolutions by the Independent Shareholders at the SGM approving, among other things, (i) the Rights Issue, including the allotment and issue of the Rights Shares (in their nil-paid and fully paid forms); and (ii) the Whitewash Waiver on or before the Posting Date;
- (b) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Posting Date;
- (c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Posting Date;

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- (d) the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and permission to deal in the Shares as well as the Rights Shares in nil-paid and fully-paid forms by no later than Tuesday, 30 June 2020 (or such other date as may be determined by the Company) and Wednesday, 29 July 2020 (or such other date as may be determined by the Company) respectively, being the first day of their dealings;
- (e) there being no breach of the obligations of Mr. H Shi and Mr. J Shi under the Deeds of Covenants and Undertakings prior to the Latest Time for Acceptance; and
- (f) the Executive having granted (and such grant not having been withdrawn) the Whitewash Waiver to Mr. H Shi prior to the Posting Date, and the satisfaction of all conditions (if any) attached thereto.

The conditions are incapable of being waived. If any of the above conditions is not satisfied at or prior to the respective time stipulated therein, the Rights Issue will not proceed. As at the Latest Practicable Date, none of the Conditions had been fulfilled or waived.

2.3 Non-underwritten basis

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event there is an undersubscription of the Rights Issue, the size of the Rights Issue will be reduced accordingly.

The legal adviser of the Company has confirmed that there are no applicable statutory requirements under the Companies Act 1981 of Bermuda regarding minimum subscription levels in respect of the Rights Issue.

2.4 Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must:

- (i) be registered as a member of the Company at the close of business on the Record Date; and
- (ii) be a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, transfer documents (together with the relevant share certificates) must be lodged with the Share Registrar no later than 4:30 p.m. on Wednesday, 17 June 2020.

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2.5 Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for, by way of excess application, (i) any unsold entitlements to the Rights Shares of the Excluded Shareholder(s) (if any); (ii) any unsold Rights Shares created by aggregating fractions of the Rights Shares; and (iii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renouncees or transferees of nil-paid Rights Shares. (i) to (iii) are collectively referred to as “Untaken Rights”.

Pursuant to Rule 7.21(3)(b) of the Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by any controlling shareholders or their associates (together, the “**Relevant Shareholders**”), whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders’ applications for excess Rights Shares to the extent that the total number of excess Rights Shares they have applied for exceeds a maximum number equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares. The Concert Group would be considered as Relevant Shareholders. For the purpose of the Rights Issue, the Company will consider the excess application(s) of the Concert Group in accordance with Rule 7.21(3)(b).

If the aggregate number of Rights Shares underlying the Untaken Rights is greater than the aggregate number of excess Rights Shares being applied for under EAFs, the Directors will allocate to each Qualifying Shareholder who applies for excess Rights Shares the actual number of excess Rights Shares being applied for.

Further details of the terms of the Rights Issue and the procedures for registration as members of the Company are contained in the Letter from the Board. The Qualifying Shareholders are urged to read the relevant sections of the Circular in full.

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3. The Deeds of Covenants and Undertakings

3.1 *HS Deed of Covenants and Undertakings*

As disclosed in the Letter from the Board, on 19 March 2020 (after trading hours of the Stock Exchange), the Company entered into the HS Deed of Covenants and Undertakings with Mr. H Shi, whereupon Mr. H Shi had irrevocably undertaken to the Company:

- (i) prior to the close of the Rights Issue, not to offer for sale, sell, transfer, contract to sell or otherwise dispose of any of (i) the 202,178,000 Shares ultimately beneficially held by him as at the date of the HS Deed of Covenants and Undertakings or (ii) the nil-paid rights pertaining to the 303,267,000 Rights Shares provisionally allotted to him;
- (ii) the 202,178,000 Shares registered in his name and/or under the name(s) of his nominee(s) as at the date of the HS Deed of Covenants and Undertakings shall remain registered in his name and/or under the name(s) of his nominee(s) on the Record Date and until the close of the Rights Issue;
- (iii) to apply for the Whitewash Waiver;
- (iv) subject to having obtained the Whitewash Waiver, to accept in full the Rights Shares to be provisionally allotted to him pursuant to the Rights Issue by lodging the PAL accompanied by cheques or cashier order drawn on a licensed bank in Hong Kong for the full amount payable in respect of such Rights Shares, which shall amount to HK\$30,326,700; and
- (v) not to carry out any act (including any acquisition of voting rights by him or any parties acting in concert (as defined in the Takeovers Code) with him) that would render the Whitewash Waiver not being granted by the Executive or being revoked if granted.

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3.2 JS Deed of Covenants and Undertakings

As disclosed in the Letter from the Board, on 19 March 2020 (after trading hours of the Stock Exchange) (as supplemented on 23 March 2020), the Company entered into the JS Deed of Covenants and Undertakings with Mr. J Shi, whereupon Mr. J Shi had irrevocably undertaken to the Company:

- (i) prior to the close of the Rights Issue, not to offer for sale, sell, transfer, contract to sell or otherwise dispose of any of (i) the 12,200,000 Shares ultimately beneficially held by him as at the date of the JS Deed of Covenants and Undertakings or (ii) the nil-paid rights pertaining to the 18,300,000 Rights Shares provisionally allotted to him;
- (ii) the 12,200,000 Shares registered in his name and/or under the name(s) of his nominee(s) as at the date of the JS Deed of Covenants and Undertakings shall remain registered in his name and/or under the name(s) of his nominee(s) on the Record Date and until the close of the Rights Issue;
- (iii) subject to having obtained the Whitewash Waiver, to accept in full the Rights Shares to be provisionally allotted to him pursuant to the Rights Issue by lodging the PAL accompanied by cheques or cashier order drawn on a licensed bank in Hong Kong for the full amount payable in respect of such Rights Shares, which shall amount to HK\$1,830,000; and
- (iv) not to carry out any act (including any acquisition of voting rights by him or any parties acting in concert (as defined in the Takeovers Code) with him) that would render the Whitewash Waiver not being granted by the Executive or being revoked if granted.

Pursuant to the Deeds of Covenants and Undertakings, the Company has also undertaken to Mr. H Shi and Mr. J Shi that:

- (i) the Rights Issue shall be conditional upon the conditions set out in the paragraph headed “Conditions of the Rights Issue” under the section headed “Proposed Rights Issue” in the Letter from the Board; and
- (ii) the Company will not proceed with the Rights Issue in the event the Whitewash Waiver is not being obtained by Mr. H Shi.

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4. Reasons for and benefits of the Rights Issue and proposed use of proceeds

As set out in the Letter from the Board, assuming that there is no change in the number of issued Shares on or before the Record Date, the net proceeds from the Rights Issue (after deduction of estimated professional fees and other related expenses of approximately HK\$1.3 million) will not be less than approximately HK\$30.9 million and not more than approximately HK\$132.0 million. Based on the maximum net proceeds of HK\$132.0 million, the net proceeds are intended to be applied (i) as to approximately HK\$81.8 million for the First Phase Investment as stated in the MOU in order to increase the cemetery reserve of the Group and improve local customer sourcing network; (ii) as to approximately HK\$29.0 million for repayment of existing debts and payables with an intention to improve the Group's financial position, gearing and liquidity; and (iii) as to approximately HK\$21.2 million for general working capital.

As set out in the Letter from the Board, in the unfortunate event that the investment under the MOU does not materialise, the Company intends to utilise the net proceeds from the Rights Issue originally allocated for the First Phase Investment for other similar investment opportunity(ies). Though we understand the Company has the top priority to enter into the Formal Agreement with the Partners, the Directors consider and we concur with the Directors' views that the Company will be in a better position to negotiate with potential counterparties with a stronger liquidity position to capture any opportunities in a timely manner after the Rights Issue.

4.1 First Phase Investment

As set out in the Letter from the Board, Anxian Yuan Zhejiang and the Partners entered into a non-legally binding memorandum of understanding in relation to the possible investment by Anxian Yuan Zhejiang in the Target Company by way of capital injection, subject to the entering into of the formal agreement. The Target Company is principally engaged in cemetery management services, funeral, etiquette service, worship service, tombstone, funeral supplies sales and landscaping business, and intends to develop a commercial cemetery by phases with a total investment of approximately RMB450.0 million to expand its cemetery construction and management business. The commercial cemetery will accommodate 30,000 traditional burial plots and ecological burial plots and features rockery, gazebo, carved columns, life release pond (放生池), etc.

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We have discussed with the management of the Company regarding the Partners' background and experience, and have been provided with their identification documents, educational background and biographies. As disclosed in the Letter from the Board, the Partners are Independent Third Parties who have worked in 蘇州皇冠山公墓 (Suzhou Crown Hill Cemetery*) as the director assistant and sales manager, with approximately 4 and 13 years of experience in the cemetery business, respectively. Regarding the Target Company, we have been provided with due diligence documents such as the relevant approval from the Zaozhuang Town Government on the development of the commercial cemetery project, the filed application to the Qudong District Development and Reform Commission regarding the commercial cemetery project, the feasibility study report on the commercial cemetery project, the business license, the latest available financial information and the shareholding structures of the Target Company. Based on the information being provided by the Company, we are of the view that the Company can make a fair assessment on the background and experiences of the Partners as well as the feasibility of the First Phase Investment.

In addition, we have discussed with the management of the Company regarding the contents of and purpose of entering into the MOU and are advised that the Company intends to expand the current scale of its funeral business and considers the First Phase Investment to be in line with the Group's business strategy. Furthermore, the commercial cemetery to be developed by the Target Company will be located at Oudong District, Fuyang City, Anhui Province, a province in which the Group does not yet have an operational presence. As such, the management of the Company believes that the First Phase Investment and the eventual commencement of the commercial cemetery at Oudong District will strategically expand the Group's service coverage in the PRC, as well as broaden the Group's revenue base in the future.

As set out in the Letter from the Board, the Company and the Partners should enter into the Formal Agreement within six months from the date of the MOU, being 14 March 2020. The six months period will expire on 13 September 2020. As at the Latest Practicable Date, the Company has obtained and reviewed certain information, including but not limited to (i) the approval from the Zaozhuang Town Government on the development of commercial cemetery project; (ii) the filed application to the Qudong District Development and Reform Commission regarding the commercial cemetery project; (iii) the financial information of the Target Company; and (iv) the feasibility study report on the commercial cemetery project. Some remaining due diligence works such as physical site inspection, however, were scheduled at a later stage in view of the recent outbreak of Coronavirus Disease 2019 ("COVID-19") where the PRC government requested the slowdown of non-essential travel across the country. The due diligence process on the Target Company as well as the commercial cemetery project as a whole was therefore still on-going as at the Latest Practicable Date. Furthermore, we understand from the management of the Company that according to recent negotiation between the Group and the Partners, the Parties involved are optimistic and keen to proceed with entering into the Formal Agreement, once the remaining due diligence can be completed, including the physical site inspection, and in any event within six months from the date of the MOU, subject to whether the Company can demonstrate it has sufficient financial resources for the First Phase Investment.

* for identification purpose only

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Given that (i) the demonstration of sufficient financial resources is one of the prerequisites in proceeding with the Formal Agreement with the Partners; (ii) the Group currently does not have sufficient financial resources for the First Phase Investment; (iii) if the Company only begins to seek funding after entering into the Formal Agreement, the time it requires for the Company to do so (including the time to complete necessary regulatory procedures/approvals, if applicable) may cause a significant delay in the First Phase Investment; and (iv) the Company would also be in risk of breaching the Formal Agreement if it fails to obtain sufficient funding after entering into the Formal Agreement, we are of the view that it is fair and reasonable for the Company to carry out the Rights Issue at this stage and secure sufficient funding for the First Phase Investment before entering into the Formal Agreement. Moreover, as the demonstration of sufficient financial resources allows the Group to proceed with entering into the Formal Agreement with the Partners, based on our assessment of the First Phase Investment as shown above and of the funeral industry in the PRC as shown below, we consider the application of net proceeds towards the First Phase Investment, even at a non-legally binding MOU stage, to be beneficial and in the interests of the Company and the Shareholders as a whole.

In order to substantiate the commercial rationale of the MOU, we have conducted an independent research on the funeral industry in the PRC and according to the statistics published by the National Bureau of Statistics of China^(Note 1), the urban population and the population aged 65 and over have respectively increased from approximately 711.1 million and 143.9 million in 2015 to approximately 848.4 million and 176.0 million in 2019, representing a CAGR of approximately 2.4% and 5.2%, respectively, while the mortality rate has remained steady at approximately 7.1% during the period. The deceased population has also increased from approximately 9.7 million in 2015 to approximately 10.0 million in 2019, representing a CAGR of approximately 0.6%. Moreover, according to the “Regulations on Funeral and Interment Control (Exposure Draft)” 《殯葬管理條例》(徵求意見稿)^(Note 2) announced by the Ministry of Civil Affairs of the PRC in September 2018 and also the “Key Tasks for the China Funeral Association in 2020” 《中國殯葬協會2020年工作要點》^(Note 3) announced by the China Funeral Association in January 2020, the PRC government aims to shore up the oversight of the PRC death care service industry, drive its transformation, regulate its practices, satisfy public demand for death care services, and protect the dignity of the deceased and the interest of the general public, help rectify the irregularities in the industry and promote the development of the industry towards institutionalization, marketization and standardization, and eventually promote the long term development of the PRC death care service industry.

Note 1: website of the National Bureau of Statistics of China (<http://data.stats.gov.cn>)

Note 2: website of the “Regulations on Funeral and Interment Control (Exposure Draft)” 《殯葬管理條例》(徵求意見稿) announced by the Ministry of Civil Affairs of the PRC in September 2018 (<http://www.mca.gov.cn/article/xw/tzgg/201809/20180900011009.shtml>)

Note 3: website of the “Key Tasks for the China Funeral Association in 2020” 《中國殯葬協會2020年工作要點》 announced by the China Funeral Association in January 2020 (<http://www.chinabz.org/xhgg/9523.html>)

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Having considered the above, in particular, (i) the First Phase Investment is consistent with the Group's business expansion strategy; (ii) income to be derived from the Target Company is expected to broaden the Group's revenue base in the future; (iii) demonstrating sufficient financial resources is one of the prerequisites for the parties involved to proceed with entering into the Formal Agreement; and (iv) the generally positive prospect of the funeral industry in the PRC which is supported by favourable government policies, we concur with the view of the management of the Company that it is justifiable for the Group to apply the net proceeds from the Rights Issue to facilitate the First Phase Investment.

4.2 Repayment of existing debts and payables

As set out in the 2020 Interim Report, the Group recorded cash and cash equivalents of approximately HK\$49.2 million as at 30 September 2019, compared to interest-bearing bank and other borrowings of approximately HK\$54.3 million, trade and other payables of approximately HK\$44.4 million and tax payables of approximately HK\$17.9 million under current liabilities as at 30 September 2019. The Group therefore had a relatively low cash and cash equivalents balance after taking into account its short-term obligations, which is evident by the Group's relatively low quick ratio of approximately 0.28 as at 30 September 2019 (calculated by total current assets (excluding inventories) divided by total current liabilities).

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For the purpose of comparison, we have shortlisted two comparable companies (the “**Funeral Comparables**”), namely Fu Shou Yuan International Group Limited (stock code: 1448) (“**FSY**”) and China Wan Tong Yuan (Holdings) Limited (stock code: 6966) (“**CWTY**”) based on the following criteria: (i) the company must be listed on the Main Board of the Stock Exchange; and (ii) the company must be principally engaged in the operation of cemeteries and/or the provision of funeral services and funeral supplies in the PRC. Based on the above selection criteria, we consider the Funeral Comparables to be exhaustive. Although the size of the Funeral Comparables may not be directly comparable to the Company, as FSY and CWTY each recorded a market capitalisation of approximately HK\$15,690 million HK\$640 million as at the Latest Practicable Date, respectively, which are higher than the Company’s market capitalisation of approximately HK\$106 million as at the Latest Practicable Date, we consider it appropriate to compare the financial ratios of the Company to the Funeral Comparables for Shareholders’ reference in order to assess whether the Company’s decision to raise additional funds for the repayment of liabilities (including loans and borrowings) is justified after taking into account the financial position of comparable companies within the same industry. Based on the latest published financial results of FSY and CWTY for the year ended 31 December 2019, FSY recorded cash and cash equivalents of approximately HK\$2,007.1 million as at 31 December 2019, with quick ratio of approximately 2.93, debt-to-asset ratio of approximately 23.4% and gearing ratio of approximately 0.9%, and CWTY recorded cash and cash equivalents of approximately HK\$189.3 million as at 31 December 2019, with quick ratio of approximately 8.42, debt-to-asset ratio of approximately 35.2% and no borrowings. FSY and CWTY therefore both recorded relatively healthier liquidity/gearing ratios than the Company as the Company recorded cash and cash equivalents of approximately HK\$49.2 million as at 30 September 2019, with quick ratio of approximately 0.28, debt-to-asset ratio of approximately 42.1% and gearing ratio of approximately 32.6%. Based on the above findings, we consider it justifiable that the management of the Company would apply a portion of the net proceeds from the Rights Issue towards repaying a portion of the Group’s existing short-term debts and payables in order to improve its liquidity position.

In addition to the above, the gearing ratio of the Group will, after repayment of the abovementioned bank borrowings and other outstanding short-term liabilities, be reduced to a more desirable level. The reduction in bank borrowings will also reduce the interest burden of the Group and, together with the intended allocation of net proceeds for general working capital of the Group, provide the Group with enhanced internal resources and financing flexibility.

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Having considered the above, in particular (i) our assessment of the First Phase Investment after discussion with the management of the Company and our analysis on the funeral industry in the PRC; and (ii) the expected positive impact to be brought to the Group's liquidity position as a result of the Rights Issue, we concur with the views of the Directors that the Rights Issue is justifiable and that it is in the interests of the Company and the Shareholders as a whole to proceed with the Rights Issue.

5. Other financing alternatives available to the Group

We have discussed with the management of the Company with regards to different financing alternatives as opposed to the Rights Issue. As advised by the Company, the Directors have considered various fundraising alternatives apart from the Rights Issue, including debt and other equity financing such as placing of new Shares and open offer.

In respect of debt financing, the management of the Company considers that it will worsen the Group's gearing ratio and further increase the ongoing interest burden of the Group, which may in turn negatively affect the profitability of the Company and the risk profile of the Group which could ultimately impair its debt fundraising abilities at favourable terms, notwithstanding the fact that as a result of the recent global financial downturn and the uncertainties since the outbreak of COVID-19, most financial institutions have tightened their credit policy and it is unlikely and time consuming to obtain debt financing through commercial banks in Hong Kong/the PRC. Even if possible, under the current financial market conditions, the interest rate and its terms and conditions may not be desirable and affordable by the Group.

In respect of equity financing, the management of the Company considers other equity financing alternatives such as placing of new Shares under general or specific mandate can only raise funds in a relatively small size given the current market capitalisation of the Company and more importantly it will unavoidably dilute the shareholding of the Shareholders, whereas open offer does not provide the flexibility to the Shareholders who wish to subscribe the Rights Share to increase their shareholding interests in the Company by acquiring additional rights entitlements in the open market or to the Shareholders who opt not to subscribe the Rights Shares to reduce their shareholding interests in the Company by disposing of their nil-paid Rights Shares during the prescribed period of time for economic benefits. As such, the Directors consider that placing of new Shares and undertaking an open offer are not the desirable alternatives to the Rights Issue.

Having considered the above, we concur with the Directors' views that the Rights Issue is the appropriate funding method to raise long term capital to strengthen the capital base and liquidity position of the Company and to finance the long-term investment plans of the Group, which include the First Phase Investment.

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6. Assessment of the Subscription Price

The Subscription Price for the Rights Issue is HK\$0.10 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her provisional allotment under the Rights Issue or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

6.1 Historical Share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we reviewed the daily closing prices of the Shares from 20 March 2019 to the Last Trading Day (the “**Review Period**”) (being approximately 12 months prior to and including the Last Trading Day) and compared them with the Subscription Price. We consider that a period of 12 months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Subscription Price.



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

During the Review Period, the average closing price was approximately HK\$0.221 per Share. The lowest closing price was HK\$0.149 per Share, being recorded on 19 March 2020. The highest closing price was HK\$0.310 per Share, being recorded on 10 May 2019. The Subscription Price of HK\$0.10 per Share is lower than the closing price of the Shares throughout the Review Period. The Subscription Price represents (i) a discount of approximately 54.8% to the average closing price; (ii) a discount of approximately 32.9% to the lowest closing price; and (iii) a discount of approximately 67.7% to the highest closing price, during the Review Period.

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We noted that the closing price per Share movement was in a general downward trend during the Review Period from HK\$0.280 per Share on 20 March 2019 to HK\$0.160 per Share on 31 October 2019, and then exhibited a sudden increase with a peak on 13 November 2019 to HK\$0.290 per Share. Since then the closing price per Share started to decrease to its trough of HK\$0.156 per Share on 2 December 2019 and subsequently fluctuated in a range between HK\$0.149 and HK\$0.190 per Share until the Last Trading Day. Furthermore, we noted that the Subscription Price represents:

- (a) a discount of approximately 15.97% to the closing price of HK\$0.119 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 32.89% to the closing price of HK\$0.149 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 35.57% to the average closing price of approximately HK\$0.155 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 36.22% to the average closing price of approximately HK\$0.157 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 18.09% to the theoretical ex-rights price of approximately HK\$0.122 per Share based on the benchmarked price, being the average closing price of approximately HK\$0.155 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (f) a discount of approximately 84.86% to the net asset value of approximately HK\$0.660 per Share (the “**2020 Interim NAV per Share**”) based on the unaudited equity attributable to owners of the Company of approximately HK\$586.8 million as at 30 September 2019 and 888,545,260 Shares;
- (g) a discount of approximately 85.46% to the net asset value of approximately HK\$0.688 per Share (the “**2019 Annual NAV per Share**”) based on the audited total equity attributable to owners of the Company of approximately HK\$611.0 million as at 31 March 2019 and 888,545,260 Shares; and

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- (h) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 21.34% of the theoretical diluted price of HK\$0.122 per Share to the benchmarked price of approximately HK\$0.155 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the Last Trading Day of approximately HK\$0.149 per Share and the average closing price of the Shares of HK\$0.155 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day).

Given that the prevailing historical trading prices have already reflected the market valuation of the Company based on its financial results, corporate actions and the prevailing market sentiment, we are of the view that it is reasonable for the Company to set the Subscription Price with reference to, among other things, the prevailing historical trading prices of its Shares. Besides, as discussed in the paragraph headed “6.3 Comparison with other rights issue” below, we also noted that it is common market practice to set the Subscription Price at a discount to prevailing market prices to increase the attractiveness for shareholders to participate in a rights issue.

Furthermore, considering the level of the closing price of the Shares during the Review Period as mentioned above, the Shares had also been consistently traded at a deep discount to the 2019 Annual NAV per Share since the publication of the 2019 Annual Report up to the Last Trading Day (ranging from a minimum discount of approximately 57.85% to a maximum discount of approximately 78.34%) and to the 2020 Interim NAV per Share since the publication of the 2020 Interim Report up to the Last Trading Day (ranging from a minimum discount of approximately 56.06% to a maximum discount of approximately 77.42%). Given the above, we are of the view that it is reasonable for the Company to set the Subscription Price at a discount of approximately 85.46% to the 2019 Annual NAV per Share and approximately 84.86% to the 2020 Interim NAV per Share to increase the attractiveness of the Rights Issue to the Shareholders. Otherwise the Shareholders will have much fewer incentives to participate in the Rights Issue.

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6.2 Average daily trading volume of the Shares

Apart from the daily closing price of the Shares, we have also reviewed the average daily trading volume per month/period of the Shares for the Review Period and details of our analysis are summarised in the table below:

	Number of trading days	Average daily trading volume of the Shares (No. of Shares)	Percentage of average daily trading volume to total number of issued Shares (Note 1)	Percentage of average daily trading volume to total number of issued Shares held by public Shareholders (Note 2)
2019				
March (beginning from 20 March 2019)	8	272,750	0.037%	0.052%
April	19	232,632	0.031%	0.044%
May	21	604,524	0.082%	0.116%
June	19	163,715	0.022%	0.031%
July	22	312,000	0.042%	0.060%
August	22	365,190	0.049%	0.070%
September	21	1,038,333	0.140%	0.198%
October	21	939,714	0.127%	0.180%
November	21	2,822,000	0.381%	0.539%
December (up to 16 December 2019)	11	1,211,755	0.164%	0.232%
December (17 to 31 December 2019)	9	235,800	0.027%	0.035%
2020				
January	20	2,379,116	0.268%	0.354%
February	20	889,089	0.100%	0.132%
March (up to 19 March 2020)	14	266,143	0.030%	0.040%

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

Notes:

6.2.1.1 The total number of issued Shares was 740,545,260 for the period from 20 March 2019 to 16 December 2019 and increased to 888,545,260 for the period from 17 December 2019 to the Last Trading Day.

6.2.1.2 The total number of issued Shares held by public Shareholders was 523,367,260 for the period from 20 March 2019 to 16 December 2019 and increased to 671,367,260 for the period from 17 December 2019 to the Last Trading Day.

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As shown in the table above, the average daily trading volume of the Shares in each month/period ranged from the highest of 2,822,000 Shares in November 2019 to the lowest of 163,715 Shares in June 2019, representing approximately 0.539% and 0.031% to the total number of issued Shares held by public Shareholders as at the end of the month/period and approximately 0.381% and 0.022% to the total number of issued Shares as at the end of the month/period, respectively, which indicates a relatively thin trading liquidity during the Review Period and would be difficult for the Shareholders to acquire a substantial block of the Shares in the open market, without exerting a significant impact on the Share price.

Given the above, we are of the view that issuers with relatively a thinner average daily trading volume of their shares may need to offer a relatively large discount to the prevailing trading prices to attract their shareholders to subscribe for the new shares when they propose to raise funds by way of a rights issue or open offer.

6.3 Comparison with other rights issues

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have identified an exhaustive list of 29 rights issue transactions (the “**Comparables**”) announced by other companies listed on the Stock Exchange for the period from 12 months immediately prior to the date of the Last Trading Day to the Last Trading Day (the “**Comparable Review Period**”). Shareholders should note that the subject companies in the Comparables may have different principal business activities, market capitalisations, profitability, financial positions and future prospects as compared to those of the Company. Although the circumstances surrounding such Comparables may be different from those relating to the Company, we consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions in relation to rights issue transactions which the Comparables, for illustrative purpose only, serve as a general reference for prevailing market practices in relation to rights issue transactions conducted by companies listed in the Stock Exchange. The table below provides a summary of our findings:

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Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/ to					Maximum dilution effect (%) (Note 2)
				the share price on the last trading day (%)	the theoretical ex-right share price on the last trading day (%)	the average share price for the five previous consecutive trading days up to and including the last trading day (%)	the average share price for the ten previous consecutive trading days up to and including the last trading day (%)	The consolidated net asset value per share (%) (Note 1)	
6 March 2020	Moody Technology Holdings Limited	1400	1 for 2	(26.06)	(17.75)	(10.32)	(12.59)	N/A (Note 3)	33.30
3 March 2020	China New Economy Fund Limited	80	1 for 1	(27.30)	(15.80)	(25.70)	(27.30)	0	50.00
11 February 2020	Ares Asia Limited	645	1 for 2	(20.24)	(14.47)	(20.24)	(20.14)	105.02	33.33
3 February 2020	CMMB Vision Holdings Limited	471	1 for 2	(12.16)	(8.45)	(12.87)	(17.41)	(93.18)	33.33
21 January 2020	FDG Electric Vehicles Limited	729	1 for 2	(14.16)	(11.50)	(16.67)	(12.66)	N/A (Note 3)	33.33
14 January 2020	Guotai Junan International Holdings Limited	1788	1 for 3	(2.68)	(2.03)	(1.63)	(0.28)	0.83	25.00
10 January 2020	Merdeka Financial Group Limited	8163	4 for 1	(8.33)	(1.79)	0	2.80	N/A (Note 3)	80.00
10 January 2020	Neway Group Holdings Limited	55	2 for 1	(20.00)	(8.68)	(21.57)	(21.57)	(94.27)	66.67
3 January 2020	Purapharm Corporation Limited	1498	1 for 2	(37.50)	(29.00)	(37.90)	(28.60)	(61.60)	33.33
2 January 2020	Wuling Motors Holdings Limited	305	1 for 2	(32.20)	(23.95)	(30.80)	(31.03)	(74.62)	33.33
24 December 2019	On Real International Holdings Limited	8245	1 for 2	(61.54)	(51.61)	(61.54)	(62.69)	(30.26)	33.33
23 December 2019	Elegance Optical	907	1 for 2	(21.79)	(15.66)	(21.44)	(22.44)	(79.90)	33.33
18 December 2019	Victory City International Holdings Limited	539	2 for 1	(22.86)	(9.09)	(21.28)	(21.97)	(96.91)	66.67
13 December 2019	Greenway Mining Group Limited	2133	1 for 4	0	0	0	(0.90)	(90.96)	20.00
10 December 2019	Beijing Capital Land Ltd.	2868	5 for 10	(29.17)	(21.54)	(29.70)	(29.70)	(84.24)	33.33
6 December 2019	Wanjia Group Holdings Limited	401	2 for 1	(31.43)	(13.12)	(29.93)	(32.63)	(62.72)	66.67
15 November 2019	CIL Holdings Limited	479	1 for 2	(4.76)	(3.23)	(8.26)	(8.68)	272.82	33.33
6 November 2019	Eminence Enterprise Limited	616	4 for 1	(24.50)	(6.10)	(21.60)	(22.30)	(96.77)	80.00
29 October 2019	Li Bao Ge Group Limited	1869	1 for 4	(10.19)	(8.32)	(9.85)	(9.85)	96.00	20.00
28 October 2019	Magnus Concordia Group LTD	1172	1 for 2	(24.14)	(17.50)	(25.88)	(29.53)	(42.10)	33.33
11 October 2019	Ping An Securities Group (Holdings) Limited	231	1 for 2	(21.54)	(20.63)	(27.54)	(31.51)	194.12	33.33
26 August 2019	Jiangnan Group Limited	1366	1 for 2	(13.80)	(9.70)	(13.60)	(14.80)	(77.08)	33.33
18 July 2019	Cocoon Holdings Limited	428	2 for 1	(13.80)	(5.10)	(12.50)	(12.20)	(75.20)	66.67

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Announcement date	Company name	Stock code	Basis of entitlement	the share price on the last trading day (%)	the theoretical ex-right share price on the last trading day (%)	Premium/ (Discount) of the subscription price over/ to the average share price for the five previous consecutive trading days up to and including the last trading day (%)	the average share price for the ten previous consecutive trading days up to and including the last trading day (%)	The consolidated net asset value per share (%)	Maximum dilution effect (%)
								(Note 1)	(Note 2)
3 July 2019	South China Financial Holdings Limited	619	3 for 2	(16.00)	(7.08)	(14.46)	(14.81)	(86.16)	60.00
13 June 2019	International Standard Resources Holdings Limited	91	1 for 2	(32.96)	(24.67)	(34.07)	(38.46)	33.78	33.33
11 June 2019	Food Idea Holdings Limited	8179	1 for 2	(34.74)	(26.19)	(35.08)	(36.25)	(80.25)	33.33
3 May 2019	Theme International Holdings Limited	990	1 for 2	(14.53)	(9.91)	(15.97)	(15.97)	8.70	33.33
3 April 2019	JTF International Holdings Limited	8479	1 for 2	(8.82)	(6.06)	(9.09)	(13.29)	(37.50)	33.33
2 April 2019	Prosperity International Holdings (H.K.) Limited	803	2 for 5	(65.30)	(57.40)	(64.60)	(63.90)	(90.18)	28.57
			Minimum	(65.30)	(57.40)	(64.60)	(63.90)	(96.91)	20.00
			Maximum	0	0	0	2.80	272.82	80.00
			Average	(22.50)	(15.39)	(21.87)	(22.44)	(24.72)	41.27
	The Company		3 for 2	(32.89)	(18.09)	(35.57)	(36.22)	(84.86)	60.00

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

Note 1: The net asset value per share was extracted from the relevant announcement or circular of the Comparables. Where such information is not available from the above-published sources, the net asset value per share was computed based on the reported net asset value as shown in the relevant interim results or annual results of the subject companies and the number of issued shares as at the date of the relevant announcement of the Comparables.

Note 2: The potential maximum dilution effect of each rights issue is calculated as the number of rights shares issued or to be issued under the basis of entitlement divided by the total number of shares as enlarged by the rights issue according to their respective basis of entitlements and assuming all rights shares have been/will be allotted and issued times 100%.

Note 3: The subject companies were in net liabilities position as shown in the relevant latest interim results or annual results.

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As set out in the table above, we noted that:

- (i) all of the Comparables had set the subscription price of their rights issue either at a discount or equivalent to the prevailing market price of the relevant shares on the respective last trading days before the rights issue;
- (ii) the discount of the subscription prices to the share price on the last trading day of the Comparables ranged from 0% to a discount of approximately 65.30% (the “**Comparable LTD Range**”), with an average discount of approximately 22.50% (the “**Comparable LTD Average**”). The discount of approximately 32.89% to the closing price per Share on the Last Trading Day as represented by the Subscription Price (the “**LTD Discount**”) is within the Comparable LTD Range and represents a larger discount than the Comparable LTD Average;
- (iii) the discount of the subscription prices to the theoretical ex-rights prices per share based on the last trading day of the Comparables ranged from 0% to a discount of approximately 57.40% (the “**Comparable TERP Range**”), with an average discount of approximately 15.39% (the “**Comparable TERP Average**”). The discount of approximately 18.09% to the theoretical ex-rights price per Share on the Last Trading Day (the “**TERP Discount**”) is within the Comparable TERP Range and represents a larger discount than the Comparable TERP Average;
- (iv) the discount of the subscription prices to the average share price for the five previous consecutive trading days up to and including the last trading day of the Comparables ranged from 0% to a discount of approximately 64.60% (the “**Comparable five days Range**”), with an average discount of approximately 21.87% (the “**Comparable five days Average**”). The discount of approximately 35.57% to the average share price for the five previous consecutive trading days up to and including the last trading day as represented by the Subscription Price (the “**five days Discount**”) is within the Comparable five days Range and represents a larger discount than the Comparable five days Average;
- (v) the premium/discount of the subscription prices over/to the average share price for the ten previous consecutive trading days up to and including the last trading day of the Comparables ranged from a premium of approximately 2.80% to a discount of approximately 63.90% (the “**Comparable ten days Range**”), with an average discount of approximately 22.44% (the “**Comparable ten days Average**”). The discount of approximately 36.22% to the average share price for the ten previous consecutive trading days up to and including the last trading day as represented by the Subscription Price (the “**ten days Discount**”) is within the Comparable ten days Range and represents a larger discount than the Comparable ten days Average; and

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- (vi) the premium/discount of the subscription prices over/ to the consolidated net asset value per share of the Comparables ranged from a premium of approximately 272.82% to a discount of approximately 96.91% (the “**Comparable NAV Range**”), with an average discount of approximately 24.72% (the “**Comparable NAV Average**”). The discount of approximately 84.86% to the 2020 Interim NAV per Share as represented by the Subscription Price (the “**NAV Discount**”) is within the Comparable NAV Range and represents a larger discount than the Comparable NAV Average.

Although each of the Subscription Price discounts represents a larger discount than each of the corresponding average subscription price discounts of the Comparables, we are of the view that this comparison should not be solely used to determine whether the Subscription Price is fair and reasonable as the level of discount for each rights issue is dependent on multiple factors such as prevailing market sentiment, historical share price performance and liquidity, and the profile and industry of each company. As disclosed in the Letter from the Board, the determination of the Subscription Price has also taken into account the recent outbreak of COVID-19 which contributed to the decline in the investment sentiment among investors and intensified uncertainties in the market. In light of this, we consider that it is reasonable for the Board to lower the further investment cost of the Shareholders so as to attract them to participate in the Rights Issue under the current market sentiment.

Taking into account our analysis above, in particular that (i) it is the normal market practice for listed companies to set the subscription price of rights issue at a discount to the prevailing historical trading price of the relevant shares so as to encourage shareholders’ participation; (ii) notwithstanding each of the LTD Discount, the TERP Discount, the five days Discount, the ten days Discount and the NAV Discount represents a larger discount than the Comparable LTD Average, the Comparable TERP Average, Comparable five days Average, the Comparable ten days Average and the Comparable NAV Average, respectively, each of the LTD Discount, the TERP Discount, the five days Discount, the ten days Discount and the NAV Discount is within the Comparable LTD Range, the Comparable TERP Range, the Comparable five days Range, the Comparable ten days Range and the Comparable NAV Range, respectively; (iii) the overall declining trend of the closing prices of the Shares during the Review Period; and (iv) the recent outbreak of COVID-19 which contributed to the decline in the investment sentiment among investors and intensified economic uncertainties in the market, we concur with the Directors’ views that the Subscription Price is on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

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7. Potential dilution effect on the interests of the Independent Shareholders

For illustrative purpose, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Rights Issue (assuming no further Shares will be issued or repurchased from the Latest Practicable Date and up to the Record Date):

	Immediately after completion of the Rights Issue						Assuming only Mr. H Shi and Mr. J Shi had taken up their Rights Shares entitlement and Mr. H Shi had taken up the maximum number of excess Rights Shares (i.e. 1,011,250,890 Shares)
	As at the Latest Practicable Date		Assuming all Shareholders have taken up the Rights Shares		Assuming only Mr. H Shi and Mr. J Shi had taken up the Rights Shares entitlement		
	No. of shares	%	No. of shares	%	No. of shares	%	
Mr. H Shi	202,178,000	22.75	505,445,000	22.75	505,445,000	41.77	1,516,695,890
Mr. J Shi	12,200,000	1.37	30,500,000	1.37	30,500,000	2.52	30,500,000
The Concert Group	214,378,000	24.12	535,945,000	24.12	535,945,000	44.29	1,547,195,890
Mr. Law Fei Shing	2,800,000	0.32	7,000,000	0.32	2,800,000	0.23	2,800,000
Public shareholders	671,367,260	75.56	1,678,418,150	75.56	671,367,260	55.48	671,367,260
Total	888,545,260	100.0	2,221,363,150	100.0	1,210,112,260	100.00	2,221,363,150

The Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables them to maintain their proportionate interests in the Company and to participate in the future business development of the Company should they wish to do so. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue and their aggregate shareholding interests in the Company might be diluted by a maximum of approximately 45.34%, assuming only Mr. H Shi and Mr. J Shi have taken up their Rights Shares and Mr. H Shi had taken up the maximum number of excess Rights Shares.

In justifying the fairness and reasonableness of the potential dilution effect of the Rights Issue, we have compared the maximum dilution effect of the Rights Issue with that of the Comparables. Despite the maximum dilution effect of the Rights Issue of 60.00% being higher than the average maximum dilution effect of the Comparables of approximately 41.27%, we are of the view that such dilution effect is still acceptable as it falls within the range from 20.00% to 80.00% of the Comparables.

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In assessing the abovementioned potential dilution effects, we consider that the following factors should be taken into consideration as well:

- (i) the Rights Issue is on the basis that all Qualifying Shareholders are offered with an equal opportunity to decide whether to subscribe for the Rights Shares for maintaining their proportionate interests in the Company or not;
- (ii) Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market;
- (iii) the shareholding interest of the Qualifying Shareholders would not be diluted if they elect to subscribe for in full their assured entitlements;
- (iv) the use of proceeds, which include the First Phase Investment and the repayment of existing debts and payables, are beneficial to the Company and the Shareholders as a whole as previously discussed under the section headed “4. Reasons for and benefits of the Rights Issue and proposed use of proceeds” above;
- (v) the Rights Issue is considered to be a relatively more appropriate fundraising method as compared to other financing alternatives as previously discussed under the section headed “5. Other financing alternatives available to the Group” above; and
- (vi) the generally positive impact on the financial position of the Group as a result of the Rights Issue as detailed in the section headed “8. Possible financial effects of the Rights Issue” below.

Given the above, we are of the view that the maximum level of potential dilution effect on the shareholding interest of the Shareholders (who decide not to accept their assured entitlements in full as a result of the Rights Shares) under the Rights Issue is justifiable.

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8 Possible financial effects of the Rights Issue

It should be noted that the analysis below is for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

8.1 Net tangible assets

Based on the 2020 Interim Report, the unaudited consolidated net tangible assets of the Group per Share were approximately HK\$0.192 as at 30 September 2019, computed by dividing the total unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 of approximately HK\$170.6 million by the total number of issued Shares of 888,545,260. With reference to “Unaudited pro forma financial information of the Group” as set out in Appendix II of the Circular, (i) assuming that completion of the Rights Issue took place on 30 September 2019 based on minimum number of 321,567,000 Rights Shares to be issued, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company was approximately HK\$201.4 million as at 30 September 2019, while the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after the completion of the Rights Issue was approximately HK\$0.166 as at 30 September 2019; and (ii) assuming that completion of the Rights Issue took place on 30 September 2019 based on maximum number of 1,332,817,890 Rights Shares to be issued, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company was approximately HK\$302.6 million as at 30 September 2019, while the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after the completion of the Rights Issue was approximately HK\$0.136 as at 30 September 2019.

Such a decrease in the unaudited consolidated net tangible assets per Share upon completion of the Rights Issue is inevitable because the Rights Shares are to be issued at a discount to the unaudited consolidated net tangible assets per Share. Having considered the benefits of the Rights Issue as mentioned above in this letter, and that all Qualifying Shareholders are offered the same opportunities to enjoy the benefit of subscribing the Rights Shares at the Subscription Price, which is at a discount to the historical market price of the Shares, we consider such decrease in the unaudited consolidated net tangible assets per Share to be acceptable.

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8.2 Liquidity

Based on the 2020 Interim Report, the cash and cash equivalents of the Group amounted to approximately HK\$49.2 million as at 30 September 2019. Immediately upon completion of the Rights Issue, the cash and cash equivalents of the Group is expected to increase by the estimated net proceeds of the Rights Issue of not less than approximately HK\$30.9 million and not more than approximately HK\$132.0 million. As such, the liquidity of the Group will be enhanced following the completion of the Rights Issue.

8.3 Gearing ratio

As at 30 September 2019, the Group's gearing ratio, which is the ratio of total interest-bearing borrowing over total equity attributable to owners of the Company, was approximately 32.6%. Assuming the level of borrowings of the Group remains unchanged, the capital base of the Group would be enlarged and the cash and cash equivalents of the Group will increase upon completion of the Rights Issue. Accordingly, the gearing ratio of the Group will be improved as a result of the Rights Issue.

Notwithstanding that the consolidated net tangible assets per Share of the Company would decrease as a result of the Rights Issue, the liquidity and gearing ratio of the Group would be enhanced. As such, we are of the view that the Rights Issue would have a generally positive financial effect on the Group's financial position immediately upon the completion of the Rights Issue.

9 The Whitewash Waiver

Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi, the shareholding interest of Mr. H Shi will increase from approximately 22.8% to 41.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue. Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi; and (iii) Mr. H Shi has applied for and successfully been allotted the maximum excess Rights Shares allowed pursuant to Rule 7.21(3)(b) of the Listing Rules, being 1,011,250,890 Rights Shares, the shareholding interest of Mr. H Shi will increase from approximately 22.8% to 68.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue.

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Assuming (i) there is no change in the number of issued Shares on or before the Record Date and (ii) no other Qualifying Shareholders accepted any Rights Shares provisionally allotted to them, the aggregated shareholding interest of the Concert Group will increase from approximately 24.1% to 44.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue. Assuming (i) there is no change in the number of issued Shares on or before the Record Date; (ii) no Qualifying Shareholders accepted any Rights Shares provisionally allotted to them other than Mr. H Shi and Mr. J Shi and (iii) Mr. H Shi has applied for and successfully been allotted the maximum excess Rights Shares allowed pursuant to Rule 7.21(3)(b) of the Listing Rules, being 1,011,250,890 Rights Shares, the aggregated shareholding interest of the Concert Group will increase from approximately 24.1% to 69.7% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon completion of the Rights Issue.

In such circumstances, the acceptance in full by Mr. H Shi of the provisional allotment of Rights Shares to him pursuant to the HS Deed of Covenants and Undertakings and/or the allotment of excess Rights Shares to Mr. H Shi upon successful excess application when there is an undersubscription of the Rights Issue will trigger an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code for all Shares not already owned or agreed to be acquired by Mr. H Shi and parties acting in concert (as defined in the Takeovers Code) with him, unless a waiver is granted by the Executive.

In light of the above, Mr. H Shi had made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. Pursuant to the Takeovers Code, the Whitewash Waiver will be conditional on, among other things, the approval of the Independent Shareholders of the Whitewash Waiver and Rights Issue at the SGM by way of poll in accordance with the requirements of the Takeovers Code. Save for the Concert Group and Mr. Law Fei Shing (being an executive Director), no Shareholder is required to abstain from voting in favour of the proposed resolution approving the Whitewash Waiver at the SGM. Pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, the Whitewash Waiver is subject to the condition that respective resolutions relating to the Whitewash Waiver and the Rights Issue being approved by at least 75% and more than 50% respectively of the votes cast by the Independent Shareholders at the SGM.

The Rights Issue is subject to the fulfilment of the conditions paragraph headed “Conditions of the Rights Issue” under the section headed “Proposed Rights Issue” in the Letter from the Board including, among other things, the Executive granting the Whitewash Waiver to Mr. H Shi. Accordingly, the Rights Issue may or may not proceed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our analysis of the terms of the Rights Issue, reasons for the Rights Issue and the use of proceeds of the Rights Issue as set out above, we consider that the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders, the Rights Issue will not become unconditional and will not proceed and the Company will lose all the benefits which are expected to be brought by the Rights Issue. Given that (i) the Group's financial position and the total equity attributable to the owners of Company will be strengthened as a result of the Rights Issue; (ii) the net proceeds from the Rights Issue are intended to be used to provide funding for the First Phase Investment and repayment of existing debts; and (iii) all Qualifying Shareholders will be provided with an equal opportunity to take up the Rights Shares in accordance with their provisional entitlements under the Rights Issue and their respective interests in the Company will not be diluted if they elect to take up in full of their provisional allotments under the Rights Issue, we are of the opinion that, for the purposes of implementing the Rights Issue as discussed above, the grant of the Whitewash Waiver and the approval of the Whitewash Waiver by the Independent Shareholders at the SGM are in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

- (i) the Rights Issue is on the basis that all Qualifying Shareholders have been offered equal opportunity to maintain or increase (by way of excess application) their respective shareholding in the Company;
- (ii) the background and rationale of the Rights Issue, including (a) the existing financial position of the Group, (b) the use of proceeds, which includes our assessment of the First Phase Investment, and (c) the fundraising alternatives available to the Group;
- (iii) each of the LTD Discount, the TERP Discount, the five days Discount, the ten days Discount and the NAV Discount is within the Comparable LTD Range, the Comparable TERP Range, the Comparable five days Range, the Comparable ten days Range and the Comparable NAV Range, respectively;
- (iv) the potential dilution effects on shareholding interests of the Shareholders are acceptable as they fall within the range of the Comparables;
- (v) the theoretical dilution impact of the Rights Issue complies with Rule 7.27B of the Listing Rules; and
- (vi) the generally positive financial effects of the Rights Issue;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

we are of the opinion that the terms of the Rights Issue and Whitewash Waiver 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 advise the Rights Issue Independent Board Committee and the Takeovers Code Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Rights Issue and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
TUS Corporate Finance Limited
Michael Ngai
Managing Director

Mr. Michael Ngai is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of TUS Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 15 years of experience in the finance and investment banking industry.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the six months ended 30 September 2019 and each of the financial years ended 31 March 2017, 2018 and 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.anxianyuanchina.com>):

- Interim report of the Company for the six months ended 30 September 2019 (pages 12 to 38)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1119/2019111900299.pdf>
- Annual report of the Company for the financial year ended 31 March 2019 (pages 69 to 182)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0711/lt20190711512.pdf>
- Annual report of the Company for the financial year ended 31 March 2018 (pages 60 to 154)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0719/lt20180719452.pdf>
- Annual report of the Company for the financial year ended 31 March 2017 (pages 48 to 134)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0712/lt20170712277.pdf>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

The following summary of financial information for each of the three years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2018 and 2019 are extracted from the consolidated financial statements of the Company as set forth in the annual reports of the Company for the years ended 31 March 2017, 2018 and 2019 and the interim report for the six months ended 30 September 2018 and 2019, respectively.

	Year ended 31 March			Six months ended	
				30 September	
	2017	2018	2019	2018	2019
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	161,584	206,609	223,120	97,904	98,315
Profit before taxation	12,707	39,039	35,404	14,392	13,658
Income tax expense	(6,895)	(21,749)	(18,366)	(5,108)	(7,242)
Profit for the year/period	5,812	17,290	17,038	9,284	6,416
Profit/(Loss) attributable to:					
Owners of the Company	6,240	16,730	17,082	9,180	6,726
Non-controlling interests	(428)	560	(44)	104	(310)
Total comprehensive income					
attributable to:	(36,012)	89,025	(30,958)	(56,315)	(27,919)
Owners of the Company	(32,516)	83,589	(27,615)	(51,815)	(25,295)
Non-controlling interests	(3,496)	5,436	(3,343)	(4,500)	(2,624)
Earnings per share					
Basic (HK cents)	0.09	2.36	2.31	1.24	0.91
		(restated)			
Diluted (HK cents)	0.09	2.36	2.31	1.24	0.91
		(restated)			
Dividends per share	nil	nil	nil	nil	nil

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	Year ended 31 March			Six months ended 30 September
	2017	2018	2019	2019
	(audited)	(audited)	(audited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	1,155,076	1,192,104	1,098,710	1,075,193
Total liabilities	600,801	502,676	440,618	452,480
Total equity	554,275	689,428	658,092	622,713
Non-controlling interests	45,411	50,847	47,126	35,869
Total equity attributable to owners of the Company	508,864	638,581	610,966	586,844

The management discussion and analysis of the Company for the six months ended 30 September 2018 and 2019 and each of the financial years ended 31 March 2017, 2018 and 2019 are disclosed in the interim report of the Company for the six months ended 30 September 2018 and 2019 and annual reports of the Company for the financial years ended 31 March 2017, 2018 and 2019, respectively.

No modified opinion, emphasis of matter or material uncertainty related to going concern was contained in the Company's auditors' report for each of the three financial years ended 31 March 2017, 2018 and 2019.

2. INDEBTEDNESS

Borrowings

At the close of business on 29 February 2020, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had the outstanding borrowings of approximately HK\$166.2 million, which presented as follows:

	HK\$'000
Bank loans	
– secured (<i>note (a)</i>)	5,564
– guaranteed and secured (<i>note (b)</i>)	143,947
Other borrowings	
– secured (<i>note (c)</i>)	11,128
– unsecured	<u>5,564</u>
	<u><u>166,203</u></u>

Notes:

- (a) The balance is secured by certain property, plant and equipment of the Group.
- (b) The balance is secured by 98.38% equity interest in a subsidiary of the Company and properties owned by a related company in which one of the executive Directors have control; and is guaranteed by a subsidiary and a related company in which one of the executive Directors have control.
- (c) The balance represents a discounted bill which is secured by certain property, plant and equipment of the Group.

Lease liabilities

The Group entered into several lease agreements for leasing of sales centers, offices and staff quarters located in the PRC and Hong Kong. As a result of adopting HKFRS 16 Leases which is effective for annual periods beginning on or after 1 April 2019, the Group recognised right-of-use assets and lease liabilities for the above-mentioned leases. Such lease liabilities amounted to HK\$1,295,000 as at 29 February 2020, which were classified as to HK\$1,037,000 as current liabilities and HK\$258,000 as non-current liabilities.

Contingent liabilities

As at the close of business on 29 February 2020, the Group did not have any significant contingent liabilities.

Save as aforementioned or as otherwise disclosed herein, and apart from intra-group liabilities within the Group and normal trade and other payables in the ordinary course of business, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans of other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 29 February 2020.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present financial resources and the estimated net proceeds from the Rights Issue, the Company has sufficient working capital for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

4. MATERIAL CHANGE

Save as disclosed in (i) the paragraph headed “Indebtedness” above regarding the outstanding borrowings of approximately HK\$166.2 million and the lease liabilities of approximately HK\$1.3 million as at 29 February 2020; and (ii) the financial results as disclosed below, the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

The Group recorded an increase in revenue for the 11 months ended 29 February 2020 as compared to the corresponding period in 2019. Such increase was primarily due to the PRC government encourages land-saving ecological burial (節地生態安葬), which has increased demand for and hence, revenue generated from the Group’s large-scaled wall burial (壁葬) in Hangzhou cemetery during the second half of the financial year.

The Group recorded a decrease in administrative and other expenses for the 11 months ended 29 February 2020 as compared to the corresponding period in 2019. Such decrease was primarily due to absence of expenses which are non-recurring in nature for the 11 months ended 29 February 2020 including (i) loss on disposal of subsidiary and associate; and (ii) impairment loss on other receivables.

Based on the foregoing, the Group recorded an increase in net profit for the 11 months ended 29 February 2020 as compared to the corresponding period in 2019.

The Group recorded an increase in cash and cash equivalents as at 29 February 2020 as compared to 28 February 2019, which was primarily due to (i) the increase in revenue as mentioned above; and (ii) net proceeds from the placing and underwriting agreement dated 29 November 2019 entered into between the Company (as issuer) and Supreme China Securities Limited (as placing agent) in relation to the placing of up to a maximum of 148,000,000 new Shares as disclosed in the announcement of the Company dated 29 November 2019.

5. FINANCIAL AND TRADING PROSPECT

“Filial piety” is a key component of traditional Chinese culture. Aging population in the PRC has been increasing in recent years. According to statistics, it is estimated that the elderly population of aged 65 or above will hit over 300 million by 2035. With such huge population base, inheritance of customs and culture with respect to funeral and burial, the rising consumption power, and the increasing emotional demands and pursuit of quality in respect of funeral and burial services, all have laid a critical foundation for the development of funeral and burial industry in the PRC.

Along with the acceleration of urbanisation, the Chinese government responded to the needs of the new era by constantly deepening the funeral and burial reforms, and actively promoting the governance system and capacity of funeral and burial in order to pave the way for modernisation, thereby generated enormous new demands for funeral and burial services. The comprehensive implementation of funeral and burial reforms is a solid evidence for the immense development potentials and market opportunities in the funeral and burial industry, in which it fully demonstrated itself to be a promising industry.

As one of the earliest service providers in funeral and burial industry in the PRC, the Group strives to provide quality funeral and burial services. It aims at realising the synergy and sustainable development for the health of enterprises, industry and society by taking its position in the reformation and development of contemporary cemetery industry across the country.

During the period under review, the Group proactively promoted sustainable funeral and burial models and organised the business development and management of all of its cemeteries. With continuous in-depth cultivation of its core businesses, it actualised the comprehensive development of both “funeral” and “burial” businesses. As the core project of the Group, Zhejiang Anxian Yuan was a top-notch ecological and humanistic cemetery in the province and even in the entire PRC, where numerous late sages and masters were buried. The project also passed the “Three in One” (ISO quality, environment, and occupational health and safety) international standard certification. Meanwhile, leveraging on the successful development experience of its core project, the Group constantly enhanced its continuous investment in Yin Chuan Fu Shou Yuan and Zunyi Dashenshan Cemeteries. There was a vigorous growth in revenue during the period, etc. As one of the leaders in the funeral and burial service industry in the PRC, the Group proactively responded to the call from the government and endeavoured to promote innovative conceptions such as humanistic funeral and burial, charitable funeral and burial, green funeral and burial, scientific funeral and burial, and online grave sweeping. Among which, land-saving wall burial was widely accepted and acquired satisfying profits. With an unwavering heart, the Group always persisted in protecting and upholding historical customs and promoting traditional culture with emphasis on the sense of commitment to provide humanistic care. During the period, a number of humanistic memorial parks were renovated and the social welfare and historical memorial activities acquired positive feedbacks from the different sectors of the society. With regard to management, the Group continued to optimise its internal management and training system and further facilitated the growth and development of “Anxian Member”, which infused a stronger driving force of talents for the actualisation of the Group’s vision of future.

Looking forward, the Group will continue to solidify and develop its existing projects and unearth its brand value. With persistence in green funeral and burial as its core value and tremendous effort in facilitating the progression of modernised, ecological and humanistic reformation of Chinese funerals and burials, the Group will expand the high-quality funeral and burial services and humanistic conceptions to more regions in the PRC and proactively lay down a new benchmark for the funeral and burial industry in the PRC.

**A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET
TANGIBLE ASSETS**

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group as if the Rights Issue had been completed on 30 September 2019. The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the consolidated net assets of the Group as at 30 September 2019 (unaudited) as extracted from the published interim report of the Company for the six months ended 30 September 2019 and is adjusted for the effect of the Rights Issue as if the Rights Issue had been completed on 30 September 2019. The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group immediately after completion of the Rights Issue or any future date after completion of the Rights Issue.

	Unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 September 2019 HK\$'000 (Note 1)	Less: Intangible assets HK\$'000 (Note 2)	Less: Goodwill HK\$'000 (Note 3)	Unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 HK\$'000	Estimated net proceeds from the Rights Issue HK\$'000 (Note 4)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share immediately after the completion of the Rights Issue HK\$'000 (Note 6)
Based on minimum number of 321,567,000 Rights Shares to be issued	586,844	403,886	12,390	170,568	30,857	201,425	0.166
Based on maximum number of 1,332,817,890 Rights Shares to be issued	586,844	403,886	12,390	170,568	131,982	302,550	0.136
Unaudited consolidated net tangible assets per Share prior to the completion of the Rights Issue (note 5)				0.192			

Notes:

1. The unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 September 2019 was approximately HK\$586,844,000 as extracted from the published interim report of the Company for the six months ended 30 September 2019.
2. The balance represents (1) intangible assets of the Group as at 30 September 2019 amounted to approximately HK\$427,610,000 as extracted from the published interim report of the Company for the six months ended 30 September 2019; and (2) excludes the portion held by non-controlling interests of approximately HK\$23,724,000.
3. Goodwill of the Group as at 30 September 2019 amounted to approximately HK\$12,390,000 as extracted from the published interim report of the Company for the six months ended 30 September 2019.
4. The estimated net proceeds from the Rights Issue of approximately HK\$30,857,000 is calculated based on 321,567,000 Rights Shares to be issued at the Subscription Price of HK\$0.1 per Rights Share, after deduction of estimated related expenses of approximately HK\$1,300,000.

The estimated net proceeds from the Rights Issue of approximately HK\$131,982,000 is calculated based on 1,332,817,890 Rights Shares to be issued at the Subscription Price of HK\$0.1 per Rights Share, after deduction of estimated related expenses of approximately HK\$1,300,000.

5. The number of Shares used for the calculation of the unaudited consolidated net tangible assets per Share prior to the completion of the Rights Issue is based on 888,545,260 Shares in issue as at 30 September 2019.
6. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after the completion of the Rights Issue is calculated, based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after the completion of the maximum issuance of Rights Issue of HK\$302,550,000 divided by 2,221,363,150 Shares, which represents 888,545,260 Shares in issue as at 30 September 2019 and 1,332,817,890 Rights Shares to be issued pursuant to the Rights Issue, assuming that all Shareholders have taken up the Rights Shares or only Mr. H Shi and Mr. J Shi had taken up their Rights Shares entitlement and Mr. H Shi had taken up the maximum number of excess Rights Shares (i.e. 1,011,250,890 Shares) and the Rights Issue had been completed on 30 September 2019.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after the completion of the Rights Issue is calculated, based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after the completion of the minimum issuance of Rights Issue of HK\$201,425,000 divided by 1,210,112,260 Shares, which represents 888,545,260 Shares in issue as at 30 September 2019 and 321,567,000 Rights Shares to be issued pursuant to the Rights Issue, assuming only Mr. H Shi and Mr. J Shi had taken up their Rights Shares entitlement and the Rights Issue had been completed on 30 September 2019.

7. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 September 2019.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT

The following is the text of a report from the Reporting Accountants of the Company, BDO Limited, in respect of the unaudited pro forma financial information of the Group for the purpose of inclusion in this Circular.



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**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the directors of Anxian Yuan China Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Anxian Yuan China Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net tangible assets of the Group as at 30 September 2019 and related notes as set out on pages II-1 to II-2 of Appendix II of the Company’s circular dated 29 April 2020 (the “**Circular**”) in connection with the proposed rights issue of new shares (the “**Proposed Rights Issue**”). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Proposed Rights Issue on the Group’s financial position as at 30 September 2019 as if the Proposed Rights Issue had taken place on 30 September 2019. As part of this process, information about the Group’s financial position has been extracted from the published announcement of the interim results of the Company for the six months ended 30 September 2019, on which no review report has been published.

Directors’ Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant transaction on unadjusted financial information of the entity as if the transaction had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the entity, the transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited*Certified Public Accountants***Au Yiu Kwan**

Practising Certificate Number P05018

Hong Kong, 29 April 2020

The following is the text of a letter from the Reporting Accountants of the Company, BDO Limited, in respect of the estimate of unaudited consolidated results of the Group for the eleventh months ended 29 February 2020 for the purpose of inclusion in this Circular.



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The Board of Directors
Anxian Yuan China Holdings Limited
Room 1215, Leighton Centre
77 Leighton Road, Causeway Bay
Hong Kong

29 April 2020

Dear Sirs,

**ANXIAN YUAN CHINA HOLDINGS LIMITED (THE “COMPANY”) AND ITS
SUBSIDIARIES (THE “GROUP”)**

PROFIT ESTIMATE FOR THE ELEVENTH MONTHS ENDED 29 FEBRUARY 2020

We refer to the estimate of the unaudited consolidated results of the Group for the eleventh months ended 29 February 2020 (the “**Profit Estimate**”) set forth in the section headed “Material Change” in the circular of the Company dated 29 April 2020 (the “**Circular**”) in connection with the Company’s proposed rights issue of shares. The Profit Estimate is required to be reported on under Rule 10 of the Code on Takeovers and Mergers issued by the Securities and Futures Commission.

Directors’ Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the unaudited consolidated results based on the management accounts of the Group for the eleventh months ended 29 February 2020 prepared in accordance with the accounting policies normally adopted by the Group.

The Company’s directors are solely responsible for the Profit Estimate.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants’ Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in its audited consolidated financial statements of the Group for the year ended 31 March 2019.

Yours faithfully,

BDO Limited

The following is the text of a letter from Lego Corporate Finance Limited prepared for inclusion in this Circular.



The Board of Directors
Anxian Yuan China Holdings Limited
Room 1215, Leighton Centre
77 Leighton Road, Causeway Bay
Hong Kong

29 April 2020

Dear Sirs,

Anxian Yuan China Holdings Limited
(the “Company”, together with its subsidiaries, the “Group”)

We refer to the circular dated hereof issued by the Company in respect of, among others, (i) proposed Rights Issue on the basis of three (3) Rights Shares for every two (2) Shares held on the Record Date; and (ii) application for Whitewash Waiver (the “**Circular**”), of which this letter forms part. Terms used in this letter, unless otherwise defined, shall have the same meanings as those used in the Circular.

We refer to the statement under the section headed “4. Material Change” made by the Board in Appendix I to the Circular (the “**Profit Estimate**”), it states that:

“Save as disclosed in (i) the paragraph headed “Indebtedness” above regarding the outstanding borrowings of approximately HK\$166.2 million and the lease liabilities of approximately HK\$1.3 million as at 29 February 2020; and (ii) the financial results as disclosed below, the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

The Group recorded an increase in revenue for the 11 months ended 29 February 2020 as compared to the corresponding period in 2019. Such increase was primarily due to the PRC government encourages land-saving ecological burial (節地生態安葬), which has increased demand for and hence, revenue generated from the Group’s large-scaled wall burial (壁葬) in Hangzhou cemetery during the second half of the financial year.

The Group recorded a decrease in administrative and other expenses for the 11 months ended 29 February 2020 as compared to the corresponding period in 2019. Such decrease was primarily due to absence of expenses which are non-recurring in nature for the 11 months ended 29 February 2020 including (i) loss on disposal of subsidiary and associate; and (ii) impairment loss on other receivables.

Based on the foregoing, the Group recorded an increase in net profit for the 11 months ended 29 February 2020 as compared to the corresponding period in 2019.

The Group recorded an increase in cash and cash equivalents as at 29 February 2020 as compared to 28 February 2019, which was primarily due to (i) the increase in revenue as mentioned above; and (ii) net proceeds from the placing and underwriting agreement dated 29 November 2019 entered into between the Company (as issuer) and Supreme China Securities Limited (as placing agent) in relation to the placing of up to a maximum of 148,000,000 new Shares as disclosed in the announcement of the Company dated 29 November 2019.”

The Profit Estimate constitutes profit forecasts under Rule 10 of the Takeovers Code and must be reported on by the financial adviser and the auditors or consultant accountants of the Company. This report is issued in compliance with the requirements under Note 1(c) to Rules 10.1 and 10.2 and Rule 10.4 of the Takeovers Code.

We have reviewed the Profit Estimate and other relevant information and documents (in particular, the unaudited condensed consolidated statements of comprehensive income of the Group for the 11 months ended 29 February 2020 with comparative figures for the corresponding period in 2019 (the “**Consolidated Statements & Comparative Figures**”)) which you as the Directors are solely responsible for and discussed with you and the senior management of the Company the information and documents (in particular, the Consolidated Statements & Comparative Figures) provided by you which formed the key bases upon which the Profit Estimate has been made. In respect of the accounting policies and calculations concerned, upon which the Profit Estimate has been made, we have relied upon the report as contained in the Circular addressed to the Board from BDO Limited, being the auditors of the Company. BDO Limited is of the opinion that so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in its audited consolidated financial statements of the Group for the year ended 31 March 2019.

For the purpose of this letter, we have relied on and assumed the accuracy and completeness of all information provided to us and/or discussed with the Group, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the date hereof. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have not assumed any responsibility for independently verifying the accuracy and completeness of such information or undertaken any independent evaluation or appraisal of any of the assets or liabilities of the Group. Save as provided in this letter, we do not express any other opinion or views on the Profit Estimate. The Board remains solely responsible for the Profit Estimate.

Based on the above, we are satisfied that the Profit Estimate has been prepared by the Board with due care and consideration.

Yours faithfully,

For and on behalf of

Lego Corporate Finance Limited

Kristie Ho

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 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.

The Directors jointly and severally accept full responsibility for accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

(a) As at the Latest Practicable Date

HK\$

Authorised share capital:		
<u>10,000,000,000</u>	Shares of HK\$0.10 each	<u>1,000,000,000</u>
Issued and fully paid:		
<u>888,545,260</u>	Shares of HK\$0.10 each	<u>88,854,526</u>

- (b) Immediately following the completion of the Rights Issue (assuming (i) no change in the number of issued Shares from the Latest Practicable Date up to the Record Date; and (ii) all Qualifying Shareholders have taken up the Rights Shares to which they are entitled)

HK\$

Authorised share capital:		
<u>10,000,000,000</u>	Shares of HK\$0.10 each	<u>1,000,000,000</u>
Issued and fully paid:		
888,545,260	Shares of HK\$0.10 each	88,854,526
	Rights Shares to be allotted and issued	
<u>1,332,817,890</u>	under the Rights Issue	<u>133,281,789</u>
	Shares in issue immediately upon	
<u>2,221,363,150</u>	completion of the Rights Issue	<u>222,136,315</u>

All Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital.

Since 31 March 2019 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, save for the placing of a total of 148,000,000 Shares on 17 December 2019, no Shares had been issued.

The Rights Shares, when issued and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of issue of the Rights Shares.

The Company will apply to the Stock Exchange for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there were no arrangements under which future dividends are waived or agreed to be waived.

As at the Latest Practicable Date, the Company had no outstanding convertible securities, options, warrants or derivatives in issue which conferred any right to subscribe for, convert, or exchange into the Shares and there was no share or loan capital of any member of the Group which was under option, or agreed conditionally or unconditionally to be put under option.

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

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

Name	Capacity	Number of shares interested in (long position)	Approximate % of interest
Mr. H Shi ^(note)	Beneficial Owner	22,178,000	2.50
	Interest of controlled corporation	180,000,000	20.25
Mr. J Shi	Beneficial Owner	12,200,000	1.37
Mr. Law Fei Shing	Beneficial Owner	2,800,000	0.32

Note:

The 180,000,000 Shares out of 202,178,000 Shares are held by Master Point Overseas Limited which is a company incorporated under the laws of the British Virgin Islands, the entire issued share capital of which is legally and beneficially owned by Mr. H Shi, an executive director of the Company. The remaining 22,178,000 Shares out of the 202,178,000 Shares are held by Mr. H Shi in personal interests.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) 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 in which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following Shareholders 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, (a) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, (b) who was, directly or indirectly, interested in 5% or more of the issued voting shares of any other member of the Group or had any options in respect of such securities.

Name	Capacity	Number of shares interested in (long position)	Approximate % of interest
Master Point Overseas Limited <i>(Note)</i>	Beneficial Owner	180,000,000	20.25
Ms. Yan Zulin	Beneficial Owner	44,644,000	5.02

Note: The interest of Master Point Overseas Limited is also disclosed as the interest of Mr. H Shi, the beneficial owner of Master Point Overseas Limited, in the above section headed "Directors' and Chief Executive's Interests in the Shares, Underlying shares And Debentures of the Company and its associated corporations".

Save as disclosed above, as far as the Directors are aware, no other person had an interest or short position in the Company's shares or underlying shares which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

5. ADDITIONAL DISCLOSURE OF DEALINGS IN SHARES

- (a) save for in aggregate 214,378,000 Shares held by Mr. H Shi and Mr. J Shi, none of the members of the Concert Group owns or has control or direction over any voting rights or rights over the Shares, options, derivatives, warrants or other securities convertible into Shares;
- (b) the Concert Group has no dealings in any securities of the Company during the Relevant Period;
- (c) the Concert Group has not received any irrevocable commitment to vote for or against the proposed resolutions approving the Rights Issue, and/or the Whitewash Waiver at the SGM;
- (d) there is no outstanding derivative in respect of securities in the Company entered into by the Concert Group;

- (e) save for the Deeds of Covenants and Undertakings, there is no arrangement (whether by way of option, indemnity or otherwise) under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares or the Shares of Mr. H Shi and Mr. J Shi and which may be material to the Rights Issue and/or the Whitewash Waiver;
- (f) save that the Rights Issue is conditional upon obtaining of the Whitewash Waiver by Mr. H Shi as set out in the HS Deed of Covenants and Undertakings and there being no breach of the obligations of Mr. H Shi and Mr. J Shi under the Deeds of Covenants and Undertakings, there is no arrangement or agreement to which the Concert Group is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Rights Issue and/or the Whitewash Waiver;
- (g) there is no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Concert Group has borrowed or lent;
- (h) apart from the Subscription Price for the Rights Shares to be subscribed, there is no other consideration, compensation or benefit in whatever form paid or to be paid by the Concert Group to the Group in connection with the Rights Issue;
- (i) apart from the Deeds of Covenants and Undertakings, there is no understanding, arrangement, agreement or special deal between the Group and the Concert Group; and
- (j) there is no understanding, arrangement or agreement or special deal between any Shareholders and (i) the Concert Group, or (ii) the Company, its subsidiaries or associated companies.
- (k) as at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between (i) the Concert Group and (ii) any of the Directors, recent Directors, Shareholders or recent Shareholders, having any connection with or dependence upon the Rights Issue and/or the Whitewash Waiver;
- (l) as at the Latest Practicable Date, no benefit was to be given to any Directors as compensation for loss of office in any member of the Group or otherwise in connection with the Rights Issue and/or the Whitewash Waiver;
- (m) as at the Latest Practicable Date, save for the Deed of Covenants and Undertakings, there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Rights Issue and/or the Whitewash Waiver or otherwise connected therewith;
- (n) as at the Latest Practicable Date, there was no material contract entered into by Mr. H Shi in which any Director had a material personal interest;

- (o) as at the Latest Practicable Date, there was no agreement, arrangement or understanding to transfer, charge or pledge the Rights Shares to be acquired by Mr. H Shi in pursuance of the Rights Issue to any other persons; and
- (p) pursuant to the Deed of Covenants and Undertakings, 321,567,000 Rights Shares, of which 303,267,000 Rights Shares are undertaken by Mr. H Shi and 18,300,000 Rights Shares are undertaken by Mr. J Shi. Assuming no other Shareholder accepts the provisional allotment of Rights Shares, upon completion of the Rights Issue, the maximum potential controlling holding of the Company's voting rights will be held by the Concert Group at approximately 69.65% and by Mr. H Shi as to 68.28%. As such holding exceeds 50% of the Company's voting rights at the completion of the Rights Issue, Mr. H Shi may thereafter further his holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.
- (q) save for the Deed of Covenants and Undertakings, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert" under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of "associate" under the Takeovers Code, and none of them had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;
- (r) none of the subsidiaries of the Company, pension funds of the Company or of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of "acting in concert" or who was an associate of the Company by virtue of class (2) of the definition of "associate" under the Takeovers Code had owned or controlled, or had dealt for value in, any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;
- (s) no Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company were managed on a discretionary basis by fund managers connected with the Company and no such person had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;

- (t) pursuant to the Deed of Covenants and Undertakings, 303,267,000 Rights Shares are undertaken by Mr. H Shi and 18,300,000 Rights Shares are undertaken by Mr. J Shi. Mr. Law Fei Shing, an executive Director, did not express his intention, in respect of his own beneficial shareholding, to accept or reject the relevant Rights Shares to be provisionally allotted to him under the Rights Issues. Save for the above, none of the Directors hold any Share as at the Latest Practicable Date; and
- (u) none of the Company or the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives in respect of any Shares;

6. MARKET PRICES

The closing prices of the Shares quoted on the Stock Exchange (i) on the last trading day of each of the calendar months during the Relevant Period; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date were as follows:

Date	Closing price per Share HK\$
30 September 2019	0.210
31 October 2019	0.170
29 November 2019	0.169
31 December 2019	0.173
31 January 2020	0.190
28 February 2020	0.160
19 March 2020 (being the Last Trading Day)	0.149
31 March 2020	0.112
24 April 2020 (being the Latest Practicable Date)	0.119

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$0.290 on 13 November 2019 and HK\$0.108 on 26 March 2020, respectively.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or any of their respective associates had interest in any business that competes or may compete with the business of the Group.

8. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had service contracts with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) had been entered into or amended within six months before 19 March 2020 (being the date of the Deed of Covenants and Undertakings); (ii) which were continuous contracts with a notice period of 12 months or more or; (iii) which were fixed term contracts with more than 12 months to run irrespective of the notice period. No Director had any service contracts with the Group other than those which were expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

9. DIRECTORS' INTERESTS IN GROUP'S ASSETS OR CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors had any interest in any assets which had been since 31 March 2019 (being the date to which the latest published audited financial statements of the Company 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.

As at the Latest Practicable Date, save for the Deed of Covenants and Undertakings, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

10. LITIGATION

As at the Latest Practicable Date, no member of the Group was involved in any litigation or claims of material importance and no litigation or claims of material importance were known to the Directors to be pending or threatened against any member of the Group.

11. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by members of the Group from 20 March 2018 (being the date falling two years immediately preceding 19 March 2020 (being the date of the Deed of Covenants and Undertakings)) up to and including the Latest Practicable Date:

- (a) the placing and underwriting agreement dated 29 November 2019 entered into between the Company (as issuer) and Supreme China Securities Limited (as placing agent) in relation to the placing of up to a maximum of 148,000,000 new Shares at the placing price of HK\$0.15 per Share with a placing fee of approximately HK\$333,000 payable by the Company to Supreme China Securities Limited;

- (b) the HS Deed of Covenants and Undertakings; and
- (c) the JS Deed of Covenants and Undertakings.

12. MATERIAL CHANGE

As at the Latest Practicable Date, except as disclosed in the paragraph headed “MATERIAL CHANGE” set out in Appendix I to this circular, the Directors were not aware of any material change in the financial position or trading position of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Group were made up.

13. EXPENSES

The expenses in connection with the Rights Issue and the Whitewash Waiver, including but not limited to the financial advising fees, printing, registration, translation, legal and accounting fees are estimated to be approximately HK\$1.3 million and are payable by the Company.

14. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinions, letters or advice contained in this circular:

Name	Qualifications
Lego Corporate Finance Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
BDO Limited	certified public accountants
TUS Corporate Finance Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice or report, as the case may be, and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any shareholding, directly or indirectly, in any member of the Group nor did they 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.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which had been, since 31 March 2019 (the date to which the latest published audited financial statements of the Group were made up), acquired, or disposed of by or leased to, or were proposed to be acquired, disposed of by or leased to any member of the Group.

15. CORPORATE INFORMATION OF THE COMPANY AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered Office of the Company	Clarendon House, 2 Church Street, Hamilton HM 11 Bermuda
Head Office and Principal Place of Business in Hong Kong of the Company	Room 1215, Leighton Centre 77 Leighton Road Causeway Bay, Hong Kong
Authorised Representatives of the Company	Mr. H Shi Room 1215, Leighton Centre 77 Leighton Road Causeway Bay, Hong Kong Mr. Law Fei Shing Room 1215, Leighton Centre 77 Leighton Road Causeway Bay, Hong Kong
Company Secretary of the Company	Mr. Law Fei Shing (member of American Institute of Certified Public Accountants (AICPA), USA and associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA))
Auditor/Reporting Accountants of the Company	BDO Limited 25th Wing On Centre 111 Connaught Road Central Hong Kong
Principal Bankers of the Company	CMB Wing Lung Bank Limited 45 Des Voeux Road Central Hong Kong

Principal Share Registrar and Transfer Office of the Company	MUFG Fund Services (Bermuda) Limited 4th floor North Cedar House 41 Cedar Avenue Hamilton HM 12 Bermuda
Hong Kong Branch Share Registrar and Transfer Office of the Company	Tricor Abacus Limited Level 54, Hopewell Centre 183 Queen's Road East, Hong Kong
Financial Adviser to the Company	Lego Corporate Finance Limited Room 1601, 16/F, China Building 29 Queen's Road Central, Hong Kong
Legal Advisers to the Company	<i>As to Bermuda law</i> Conyers Dill & Pearman 29th Floor, One Exchange Square 8 Connaught Place Central, Hong Kong
Independent Financial Adviser to the Rights Issue Independent Board Committee, the Takeovers Code Independent Board Committee and the Independent Shareholders	TUS Corporate Finance Limited 15/F, Shanghai Commercial Bank Tower 12 Queen's Road Central Central, Hong Kong

16. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT**Executive Directors**

Mr. Shi Hua, aged 68, was appointed as an executive Director on 20 June 2011. He is also the chairman of the Company and chairman of the Nomination Committee as from 15 December 2011 and 30 March 2012, respectively. Mr. H Shi was the chief executive officer of the Company from 15 December 2011 to 22 January 2014. Mr. H Shi was a teacher of 浙江汽校寧波分校 (Zhejiang Motor School, Ningbo Branch*) from 1976 to 1977. During 1977 to 1990, Mr. H Shi worked for Zhejiang Civil Affairs Bureau and was responsible for the daily office routine of the Civil Affairs Bureau. During 1990 to 1996, Mr. H Shi worked for 杭州富安刺繡服裝廠 (Hangzhou Fu An Embroidery Clothing Factory*) as its manager to oversee the overall day-to-day operation. In 1996, Mr. H Shi established 浙江富安移民經濟開發有限公司 (Zhejiang Fu An Immigration Economic Development Company Limited*) and worked as its chairman and general manager. He was fully responsible for the Company's operational management and investment decisions. In 1999, Mr. H Shi established Zhejiang Anxian Yuan and worked as its chairman of the board of directors and general manager. In 2007, he resigned from Zhejiang Anxian Yuan as general manager but remains as its chairman. Mr. H Shi also has been the president of Funeral Association of Zhejiang Province since September 2018. Mr. H Shi is the father of Mr. J Shi who is an executive Director and the chief executive officer of the Company.

Mr. Shi Jun, aged 38, was appointed as an executive Director and chief executive officer of the Company on 15 December 2011 and 23 January 2014, respectively. From 2003 to 2005, Mr. J Shi worked for 浙江富安移民經濟開發有限公司 (Zhejiang Fu An Immigration Economic Development Company Limited*) as a deputy business manager, and was responsible for business development. From 2005 to 2007, Mr. J Shi worked for Hangzhou Haoletian Etiquette Service Company Limited* (杭州好樂天禮儀服務有限公司) as a deputy general manager responsible for the company's overall business operations. In 2007, Mr. J Shi worked for Zhejiang Anxian Yuan as an assistant general manager and was responsible for the company's human resources and general business plan. He has been the general manager of Zhejiang Anxian Yuan since 2008, and was responsible for the company's overall daily operations. He is currently a director of Zhejiang Anxian Yuan. Mr. J Shi also has been the president of Funeral Association of Hangzhou since May 2018. Mr. J Shi is a son of Mr. H Shi who is an executive Director and the chairman of the Company.

Mr. Law Fei Shing, aged 60, was appointed as an Independent Non-executive Director on 4 June 2009 and was redesignated to Executive Director on 10 June 2009. He is also the company secretary and Deputy Chief Executive Officer of the Company as from 22 July 2011 and 23 January 2014 respectively. Mr. Law is a certified public accountant practicing in Hong Kong. He is also a member of American Institute of Certified Public Accountants (AICPA), USA and associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Law has over 30 years of experience in the audit and accounting services. Currently, Mr. Law is a non-executive director of each of S. Culture International Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1255) and Pak Tak International Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2668) (He was re-designated from the executive director to the non-executive director of Pak Tak International Limited on 16 December 2014).

Mr. Law was a non-executive director of Beautiful China Holdings Company Limited (a company listed on the Main Board of the Stock Exchange, stock code: 706) from January 2014 to December 2017. He was an executive director and a non-executive director of Legend Strategy International Holdings Group Company Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1355) from November 2014 to April 2016 and from April 2016 to December 2016, respectively. He was an executive director of China Assurance Finance Group Limited (a company listed on GEM, stock code: 8090) from December 2017 to March 2019.

Non-executive Director

Mr. Wang Hongjie, aged 66, was appointed as a Non-executive Director on 23 January 2014. Mr. Wang is holding an on-job postgraduate qualification with the title of senior economist. Mr. Wang is currently the vice president of China Funeral Association and concurrently the director of its Funeral Service Working Committee. Mr. Wang has worked for Shanghai Civil System with over 20 years of experiences serving as a factory director, general manager and chairman. He served as the deputy general manager of Shanghai City Civil Affair Industrial Corporation (上海市民政工業總公司) and concurrently the general manager and secretary of the party committee of Shanghai Tianyang Electrical Appliances Industrial Company (上海天陽電器實業公司), and the deputy general manager of Shanghai Civil Affair (Group) Co., Ltd. (上海民政(集團)有限公司) and concurrently the chairman and general manager of Shanghai Sanzhi Auto Parts Industrial Co., Ltd. (上海三智汽配實業有限公司), all enabling him to be familiar with corporate operation and management. Mr. Wang joined Shanghai Funeral Service Centre (上海市殯葬服務中心) in 2003 and held the positions of deputy secretary and secretary of the party committee and the director of the Centre, and he had concurrently served as the vice chairman of Shanghai Huilongyuan (上海匯龍園) and the chairman of Shanghai Binhai Guyuan (上海濱海古園) for a long time among other positions. Mr. Wang served as the president of Shanghai Funeral and Interment Trade Association from March 2004 to December 2016, holding such position for nearly thirteen years. He was also the director of the Local Coordination Committees of China Funeral Association in 2007 and served as the vice president of China Funeral Association and concurrently as the director of the Funeral Service Working Committee in January 2012. He has over a decade of extensive experiences in the funeral business in mainland China and is well versed with the funeral market in the mainland.

Independent non-executive Directors

Mr. Chan Koon Yung, aged 61, was appointed as an Independent Non-executive Director on 24 June 2014. He is the chairman of each of Audit Committee and Remuneration Committee and the member of Nomination Committee. Mr. Chan is currently a Practising Certified Public Accountant in Hong Kong. Mr. Chan obtained a Master degree of Business Administration from the University of Strathclyde in the United Kingdom in 1993. He is also an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He acted as the financial director of Greater China for Tupperware Brand Corporation and the general manager of Hong Kong operation for Herbalife Ltd., both of which are listed companies in the United States. He has many years of experience in management, audit, finance, taxation and accounting.

Mr. Lum Pak Sum, aged 58, was appointed as an Independent Non-executive Director on 15 May 2017. He is the member of each of Audit Committee, Remuneration Committee and Nomination Committee. Mr. Lum obtained a master's degree in business administration from The University of Warwick in 1994 and a bachelor's degree in laws from University of Wolverhampton in 2002. He has been currently a non-practising fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, U.K. since 1996 and 1993 respectively. Mr. Lum possesses over 20 years working experience in money market and capital market.

Mr. Lum's positions in other companies listed on the Stock Exchange in the present and in the last three years are set out below:

Name of company	Position	Period of service
Great China Properties Holdings Limited (stock code: 21)	Independent non-executive director	August 2007 to present
i-Control Holdings Limited (stock code: 1402)	Independent non-executive director	May 2015 to present
Kwan On Holdings Limited (stock code: 1559)	Independent non-executive director	August 2016 to present
S. Culture International Holdings Limited (stock code: 1255)	Independent non-executive director	June 2017 to present
Sunway International Holdings Limited (stock code: 58)	Non-executive director	May 2019 to present
China Graphene Group Limited (stock code: 63)	Independent non-executive director	September 2019 to present
Jintai Energy Holdings Limited (formerly known as Yuhua Energy Holdings Limited) (stock code: 2728)	Independent non-executive director	December 2014 to April 2019
Beautiful China Holdings Company Limited (stock code: 706)	Independent non-executive director	January 2014 to August 2018
CHK Oil Limited (formerly known as Pearl Oriental Oil Limited) (stock code: 632)	Independent non-executive director	December 2017 to June 2018
Roma Group Limited (stock code: 8072)	Chief executive officer	June 2017 to 1 October 2017

Mr. Yao Hong, aged 60, was appointed as an Independent Non-executive Director on 26 November 2018. He is the member of each of Audit Committee, Remuneration Committee and Nomination Committee.

Mr. Yao graduated from the Central South University in 1982 with a major in non-ferrous metal smelting and obtained a master's degree in industrial catalysis from the Zhejiang University of Technology in 2005. He is a senior engineer in mainland China. From August 1982 to April 1985, he worked for 天津冶金材料研究所 (Tianjin Metallurgical Materials Research Institute). From May 1985 to April 1996, he worked for 中國國內貿易部物資再生利用研究所 (Institute of Materials Recycling and Utilization of the Ministry of Internal Trade of the PRC) as the director of the first research office and the secretary of the director of the institute. From May 1996 to December 2004, he worked for 浙江省冶金研究院有限公司 (Zhejiang Metallurgical Research Institute Co., Ltd.) as the general manager of the precious metal research laboratory, and has received various awards from the institute. Mr. Yao founded 杭州凱大催化金屬材料有限公司 (Hangzhou Kaida Metal Catalyst & Compounds Co., Ltd.) in March 2005 and served as an executive director and the general manager. In 2012, he won the 拱墅區優秀科技工作者獎 (Excellent Scientific Workers Award of Gongshu District). In April 2014, 杭州凱大催化金屬材料有限公司 (Hangzhou Kaida Metal Catalyst & Compounds Co., Ltd.) was renamed as 杭州凱大催化金屬材料股份有限公司 (Hangzhou Kaida Metal Catalyst & Compounds Co., Ltd.) ("Kaida Catalyst"). The shares of Kaida Catalyst was successfully listed on the New Third Board of the PRC on 13 August 2014. Since then, Mr. Yao has been serving as a director and the chairman and general manager of Kaida Catalyst (a company whose shares are listed on the New Third Board of the PRC, stock code: 830974).

Business address of the Directors

The business address of the Directors and chief executive officer is the same as the Company's head office and principal place of business in Hong Kong at Room 1215, Leighton Centre 77 Leighton Road Causeway Bay, Hong Kong.

17. MISCELLANEOUS

- (a) As at the Latest Practicable Date, there was no restriction affecting the remittance of profits or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) The English text of this circular and the accompanying form of proxy shall prevail over the respective Chinese text in case of inconsistency.

18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. at the head office and principal place of business of the Company in Hong Kong at Room 1215, Leighton Centre 77 Leighton Road Causeway Bay, Hong Kong and on the websites of the Company (www.anxianyuanchina.com) and the SFC (www.sfc.hk) from the date of this circular up to and including the date of SGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the interim report of the Company for the six months ended 30 September 2019;
- (c) the annual reports of the Company for the financial years ended 31 March 2018 and 31 March 2019;
- (d) the letter from the Board, the text of which is set out on pages 9 to 34 of this circular;
- (e) the letter from the Rights Issue Independent Board Committee, the text of which is set out on pages 35 to 36 of this circular;
- (f) the letter from the Takeovers Code Independent Board Committee, the text of which is set out on pages 37 to 38 of this circular;
- (g) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 39 to 74 of this circular;
- (h) the report from BDO Limited on the unaudited pro forma financial information of the Group as set out in appendix II to this circular;
- (i) the letter from BDO Limited on the profit estimate as set out in appendix III to this circular;
- (j) The letter from Lego Corporate Finance Limited on the profit estimate as set out in appendix III to this circular;
- (k) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (l) the written consents referred to in the paragraph headed “Experts and Consents” in this appendix; and
- (n) this circular.

NOTICE OF SPECIAL GENERAL MEETING



ANXIAN YUAN CHINA HOLDINGS LIMITED

安賢園中國控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0922)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT a special general meeting (the “**Meeting**”) of Anxian Yuan China Holdings Limited (the “**Company**”) will be held at 20/F OfficePlus @Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong on 28 May 2020 at 11:00 a.m. for considering and if thought fit, to approve the following resolutions of the Company:

ORDINARY RESOLUTION

1. “**THAT** subject to The Stock Exchange of Hong Kong Limited granting or agreeing to grant the listing of, and permission to deal in, the Rights Shares (as defined below) (in their nil-paid and fully-paid forms); and (iii) satisfaction of all conditions as set out in the paragraph headed “Conditions of the Rights Issue” in the letter from the board of the circular of the Company dated 29 April 2020:
 - (a) the issue by way of rights issue (the “**Rights Issue**”) of not more than 1,332,817,890 rights shares (the “**Rights Shares**”) at a subscription price of HK\$0.1 per Rights Share to the shareholders of the Company (the “**Shareholders**”) whose names shall appear on the register of members of the Company at the close of business on Wednesday, 24 June 2020 (the “**Qualifying Shareholders**”), or such other date as may be determined by the Company as the record date for the determination of the provisional entitlements of the Shareholders under the Rights Issue (the “**Record Date**”) (excluding those Shareholders (the “**Excluded Shareholders**”) whose addresses as shown on the register of members of the Company are outside Hong Kong whom the Directors, after making relevant enquiries, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) on the basis of three (3) Rights Shares for every two (2) ordinary shares of HK\$0.1 each in the share capital of the Company (“**Shares**”) then held on the Record Date be and is hereby approved;

* for identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (b) any director of the Company (“**Director**”) be and is hereby authorised to allot and issue the Rights Shares pursuant to and in connection with the Rights Issue in particular, (i) the Rights Shares may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements and/or the Excluded Shareholders as they deem necessary, desirable or expedient having regard to any restrictions or obligations under the bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; (ii) the Rights Shares which would otherwise have been made available for application by the Qualifying Shareholders or the Excluded Shareholders (as the case may be) will be made available for subscription under forms of application for excess Rights Shares; and
- (c) any Director be and is hereby authorised to do all such acts and things, to sign and execute all such documents and to take such steps as he/she may, in his/her absolute discretion, consider necessary, appropriate, desirable or expedient to implement or to give effect to or in connection with the Rights Issue and the transactions contemplated thereunder.”

NOTICE OF SPECIAL GENERAL MEETING

SPECIAL RESOLUTION

2. “**THAT** the waiver (the “**Whitewash Waiver**”) granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (or any delegate(s) of the Executive Director) to Mr. Shi Hua (“**Mr. H Shi**”) pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”) in respect of the obligations of Mr. H Shi to make a mandatory general offer to the shareholders of the Company under Rule 26 of the Takeovers Code for all issued securities of the Company not already owned or agreed to be acquired by Mr. H Shi and parties acting in concert with him which may be triggered as a result of the acceptance in full by him of the provisional allotment of Rights Shares to him pursuant to the deed of covenants and undertakings entered into between him and the Company on 19 March 2020 when there is an undersubscription of the Rights Issue be and is hereby approved, confirmed and ratified, and that any Director be and is hereby authorised to do all things and acts and sign all documents which he considers desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Whitewash Waiver.”

By Order of the Board

ANXIAN YUAN CHINA HOLDINGS LIMITED

SHI HUA

Chairman

Hong Kong, 29 April 2020

Notes:

1. All resolutions will be put to vote at the Meeting by way of poll.
2. The register of members of the Company will be closed from Friday, 22 May 2020 to Thursday, 28 May 2020 (both days inclusive), during which no transfer of shares of the Company will be registered. In order to qualify for the attendance of the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 21 May 2020.
3. A proxy form for use at the Meeting is enclosed with the circular issued by the Company dated 29 April 2020.
4. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of the Company may appoint more than one proxy. A proxy need not be a member of the Company.
5. To be valid, the instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

NOTICE OF SPECIAL GENERAL MEETING

6. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority, shall be deposited at Tricor Abacus Limited at the address set out in Note 2 above not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof, and in default the instrument of proxy shall not be treated as valid.
7. Where there are joint registered holders of any share of the Company, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.

As at the date of this notice, the Directors are as follows:

Executive Directors:

Mr. Shi Hua (*Chairman*)

Mr. Shi Jun (*Chief Executive Officer*)

Mr. Law Fei Shing (*Deputy Chief Executive Officer*)

Independent Non-executive Directors:

Mr. Chan Koon Yung

Mr. Lum Pak Sum

Mr. Yao Hong

Non executive Director:

Mr. Wang Hongie