

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



China Zenith Chemical Group Limited 中國天化工集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

(1) PROPOSED CAPITAL REORGANISATION; (2) PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5) RIGHTS SHARES FOR EVERY TWO (2) ADJUSTED SHARES HELD ON RECORD DATE; AND (3) NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to the
Independent Board Committee and Independent Shareholders



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 17 to 51 of this circular.

A notice convening the SGM to be held at 22/F, Euro Trade Centre, 13–14 Connaught Road Central, Central, Hong Kong, at 4:30 p.m. (or immediately after the conclusion of the annual general meeting convened on the same day and at the same place) on Wednesday, 14 December 2022 is set out on pages 111 to 114 of this circular. A form of proxy for use at the SGM or any adjournment thereof is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof (as the case may be). Completion and return of a proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish and in such event, the form of proxy shall be deemed to be revoked.

The Rights Issue is only underwritten on a best effort basis and is not on a fully underwritten basis. Pursuant to the Company’s constitutional documents and the Companies Act, there are no requirements for minimum levels of subscription in respect of the Rights Issue.

Shareholders should note that the Shares are expected to be dealt in on an ex-right basis from Monday, 19 December 2022. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 4 January 2023 to Wednesday, 11 January 2023 (both dates inclusive). It is expected that the conditions referred to in the section headed “Termination of the Underwriting Agreement” in this circular are to be fulfilled on or before 4:00 p.m. on Tuesday, 17 January 2023. If the conditions referred to in that section are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed. Any person contemplating buying or selling Shares from the Latest Practicable Date and up 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 from Wednesday, 4 January 2023 to Wednesday, 11 January 2023 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its own professional advisers. It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to the Company at any time prior to 4:00 p.m. on Tuesday, 17 January 2023 to terminate its obligations under the Underwriting Agreement on the occurrence of certain events including force majeure. These events are set out under the section headed “Termination of the Underwriting Agreement” on pages 11 to 12 of this circular.

Upon termination pursuant to the terms of the Underwriting Agreement, the obligations of the Underwriter thereunder (save for certain exceptions) shall cease and determine and no Party shall have any claim against the other Party under the Underwriting Agreement for costs, damages, compensation or otherwise save for any antecedent breaches. If the Underwriter exercises such right, the Rights Issue will not proceed.

PRECAUTIONARY MEASURES FOR THE SGM

To safeguard the health and safety of Shareholders and to prevent the spreading of the novel coronavirus (COVID-19) pandemic, the following precautionary measures will be implemented at the SGM:

- Compulsory body temperature screening/checks;
- Compulsory wearing of surgical face mask;
- No provision of food or beverages and no distribution of gifts; and
- Number of people in each room limited to the number legitimately allowed.

For the health and safety of Shareholders, the Company would strongly encourage Shareholders to exercise their rights to vote at the SGM by appointing the Chairman of the SGM as their proxy and to return their forms of proxy by the time specified above, instead of attending the SGM in person.

21 November 2022

CONTENTS

	<i>Page</i>
Precautionary Measures for the SGM	1
Definitions	3
Termination of the Underwriting Agreement	11
Expected Timetable	13
Letter from the Board	17
Letter from the Independent Board Committee	52
Letter from the Independent Financial Adviser	53
Appendix I — Financial Information of the Group	87
Appendix II — Unaudited Pro Forma Financial Information of the Group	92
Appendix III — General Information	97
Notice of SGM	111

PRECAUTIONARY MEASURES FOR THE SGM

In consideration of the control and prevention of spreading of novel coronavirus disease (“COVID-19”) pandemic, the following precautionary measures will be implemented at the SGM so as to safeguard the health and safety of the Shareholders who might be attending the SGM in person:

Voting by proxy in advance of the SGM: The Company does not in any way wish to diminish the opportunity available to Shareholders to exercise their rights and to vote, but is conscious of the pressing need to protect Shareholders from possible exposure to the COVID-19 pandemic. For the health and safety of Shareholders, the Company would strongly 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 form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjournment thereof should they subsequently so wish.

Completed forms of proxy must be returned to the Hong Kong branch share registrar of the Company, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM and any adjourned meeting thereof.

Shareholders are strongly encouraged to cast their votes by submitting a form of proxy and appointing the Chairman of the SGM as their proxy.

Taking into account the guidelines mentioned in the “Joint Statement in relation to General Meetings in light of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation” published by the Securities and Futures Commission and the Stock Exchange on 1 April 2020, the Company will also implement the following additional precautionary measures at the SGM to ensure the health and safety of the attendees at the SGM:

- (1) compulsory body temperature screening/checks will be carried out on every attendee before registration at the entrance of the venue of the SGM. The Company reserves the right to deny entry of any person with a body temperature above the reference range quoted by the Department of Health of Hong Kong from time to time, or is exhibiting flu-like symptoms into the SGM venue or require such person to leave the SGM venue so as to ensure the health and safety of the attendees at the SGM;
- (2) every attendee will be compulsorily required to wear a surgical face mask throughout the SGM and every attendee will be assigned a designated seat at the time of registration to ensure social distancing;
- (3) no food or beverages will be served and no gifts will be distributed to attendees at the SGM; and

PRECAUTIONARY MEASURES FOR THE SGM

- (4) multiple meeting rooms linked by telecommunication facilities and/or computer devices at the SGM venue will be arranged by the Company and Shareholders or their proxy will be directed to sit in certain meeting rooms to limit the number of people in each room to the number allowed under the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Chapter 599G, Laws of Hong Kong) at the date of holding the SGM and to ensure adequate physical distancing between attendees.

Attendees are requested to observe and practise good personal hygiene at all times at the SGM venue.

Due to the constantly evolving COVID-19 pandemic situation in Hong Kong, the Company may be required to change the SGM arrangements with short notice. Shareholders should check the Company's website (<https://www.chinazenith.com.hk/>) for future announcements and updates on the SGM arrangements when necessary.

DEFINITIONS

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

“2021 Rights Issue”	the rights issue previously conducted by the Company as announced on 23 November 2021 and completed in January 2022
“Adjusted Share(s)”	ordinary share(s) of par value HK\$0.1 each in the issued and unissued share capital of the Company upon the Capital Reorganisation becoming effective
“Announcement”	the announcement of the Company dated 18 October 2022 in relation to, among other things, the Capital Reorganisation and the Rights Issue
“Board”	the board of Directors
“Business Day(s)”	any day (other than a Saturday, Sunday or public holiday or a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong between 9:00 a.m. and 5:00 p.m.) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Capital Reduction”	the proposed reduction of the issued share capital of the Company whereby the issued share capital of the Company will be reduced by (a) rounding down the total number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid up capital of the Company to the extent of HK\$1.9 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK\$2.0 to HK\$0.1

DEFINITIONS

“Capital Reorganisation”	the proposed capital reorganisation of the share capital of the Company involving (i) the Share Consolidation, (ii) the Capital Reduction, (iii) the Share Sub-division, (iv) the Share Premium Reduction, and (v) the transfer of all the credits arising from the Capital Reduction and Share Premium Reduction to the contributed surplus account of the Company within the meaning of the Companies Act which will be applied to reduce the accumulated losses of the Company and be applied by the Board in any other manner in accordance with the bye-laws of the Company and all applicable laws of Bermuda from time to time without further authorisation from the Shareholders
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
“Company”	China Zenith Chemical Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued shares of which are listed on the Stock Exchange
“connected person”	shall have the meaning as ascribed to it under the Listing Rules
“Consolidated Share(s)”	the ordinary share(s) of par value of HK\$2.0 each in the issued and unissued share capital of the Company immediately upon the Share Consolidation becoming effective
“Controlling Shareholder”	shall have the meaning as ascribed to it under the Listing Rules
“Convertible Bonds”	the outstanding convertible bonds in the aggregate principal amount of HK\$20,000,000 issued by the Company to six individual and corporate subscribers on 13 November 2020

DEFINITIONS

“Director(s)”	the director(s) of the Company
“EAF(s)”	the form(s) of application for excess Rights Shares to be issued in connection with the Rights Issue
“Effective Date”	the date on which the Capital Reorganisation shall become effective, being Friday, 16 December 2022
“Excess Rights Shares”	any nil-paid Rights Share(s) provisionally allotted but not accepted by any of the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares prior to the Latest Time for Acceptance, any entitlements of the Non-Qualifying Shareholders provisionally allotted to a nominee of the Company which are left unsold, and shall include any of the Rights Shares created from the aggregation of fractions of the Rights Shares and the Scale-down PAL Shares (if any)
“Existing Share(s)”	the ordinary share(s) of par value of HK\$0.1 each in the issued and unissued share capital of the Company prior to the Share Consolidation becoming effective
“Final Acceptance Date”	the last date for acceptance and payment in respect of provisional allotments under the Rights Issue and for application and payment for excess Rights Shares, which is currently scheduled to be on Monday, 16 January 2023 or such later date as determined by the Company
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the committee of the Board comprising all independent non-executive Directors established for the purpose of giving recommendations to the Independent Shareholders in respect of the Rights Issue

DEFINITIONS

“Independent Financial Adviser”	Grand Moore Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue
“Independent Shareholder(s)”	any Shareholder(s) other than the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates
“Independent Third Party(ies)”	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons within the meaning of the Listing Rules
“Irrevocable Undertaking”	the irrevocable undertakings given by Mr. Chan in favour of the Company, the principal terms of which are disclosed in the paragraph headed “Underwriting arrangement and undertakings – The Shareholder’s undertaking” in this circular
“Last Closing Price”	the theoretical closing price of HK\$0.28 per Adjusted Share with reference to the closing price per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation
“Last Day for Transfer”	Tuesday, 20 December 2022, being the last date for lodging transfer of Shares prior to the closure of register of members of the Company
“Last Trading Day”	Tuesday, 18 October 2022, being the last full trading day for the Shares before the release of the Announcement
“Latest Practicable Date”	15 November 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Latest Time for Acceptance”	a time which is currently expected to be 4:00 p.m. on the Final Acceptance Date

DEFINITIONS

“Latest Time for Termination”	4:00 p.m. on Tuesday, 17 January 2023 or such later time or date as may be agreed between the Company and the Underwriter, being the latest time to terminate the Underwriting Agreement
“Listing Committee”	has the meaning ascribed thereto in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the main board of the Stock Exchange
“MGO Obligation”	the obligation to make a mandatory general offer under the Takeovers Code
“Mr. Chan”	Mr. Chan Yuen Tung, a substantial shareholder of the Company, who directly holds 517,937,537 Shares (representing 17.18% of the issued share capital of the Company as at the Latest Practicable Date)
“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) whom the Directors, after making enquiries regarding the legal restrictions under the laws of the relevant places, consider it necessary or expedient to exclude them from the Rights Issue (if any)
“Overseas Letter”	the letter from the Company to the Non-Qualifying Shareholders explaining the circumstances in which the Non-Qualifying Shareholders (if any) are not permitted to participate in the Rights Issue
“Overseas Shareholder(s)”	Shareholder(s) (if any) whose names appear on the register of members of the Company as at the close of business 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 in connection with the Rights Issue
“Posting Date”	Friday, 30 December 2022 or such other date as the Company determines for the despatch of the Rights Issue Documents to the Qualifying Shareholders or the Prospectus with Overseas Letter for information only to the Non-Qualifying Shareholders (if any), as the case may be

DEFINITIONS

“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Public Float Requirement”	the public float requirement under Rule 8.08 of the Listing Rules
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholder(s), whose name(s) appear on the register of members of the Company on the Record Date
“Record Date”	Thursday, 29 December 2022, or on such other date as the Company may determine, being the date of reference to which the Shareholders’ entitlements to the Rights Issue are to be determine
“Rights Issue”	the issue of up to 397,355,377 Rights Shares at the Subscription Price on the basis of five (5) Rights Shares for every two (2) Adjusted Shares held on the Record Date payable in full on acceptance
“Rights Issue Documents”	the Prospectus, PAL and EAF
“Rights Share(s)”	up to 397,355,377 new Adjusted Share(s) to be allotted and issued in respect of the Rights Issue
“Scale-down PAL Shares”	such number of Rights Shares applied for under the PAL(s) which would, if allotted by the Company, result in the incurring of an MGO Obligation on the part of the applicant
“Scaling-down”	the scale-down mechanisms of the Rights Issue as determined by the Company to which any application for the Rights Shares under the PALs, or transferees of nil-paid Rights Shares shall be subject to ensure that no application for the Rights Shares or the allotment thereof by the Company shall be at such level which may trigger any MGO Obligation
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the Capital Reorganisation and the Rights Issue
“Share(s)”	the Existing Share(s), the Consolidated Share(s) and/or the Adjusted Share(s), whichever shall be appropriate
“Share Consolidation”	the proposed consolidation of share(s) in the share capital of the Company whereby every twenty (20) Existing Shares will be consolidated into one (1) Consolidated Share
“Share Option(s)”	the share option(s) of the Company granted pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 20 December 2012
“Share Premium Account”	the share premium account of the Company
“Share Premium Reduction”	the proposed reduction of the entire amount standing to the credit of the Share Premium Account of the Company to nil
“Share Sub-division”	the proposed sub-division of each of the authorised but unissued Consolidated Shares of HK\$2.0 each into twenty (20) Adjusted Shares of HK\$0.1 each
“Shareholder(s)”	the holder(s) of the Existing Share(s), or the Consolidated Share(s), and/or the Adjusted share(s), as the case may be
“Specified Event”	an event occurring or matter arising on or after the date of execution of the Underwriting Agreement and prior to the Latest Time for Termination which, if it had occurred or arisen before the date of execution of the Underwriting Agreement, would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Subscription Price”	the subscription price of HK\$0.20 per Rights Share
“substantial Shareholder”	shall have the meaning as ascribed to it under the Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers published by the SFC
“Underwriter”	Koala Securities Limited, a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO and its ordinary course of business includes underwriting of securities
“Underwriting Agreement”	the underwriting agreement dated 18 October 2022 entered into between the Company and the Underwriter in relation to the underwriting arrangement of the Rights Issue
“Underwritten Shares”	all the Rights Shares to be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
“Untaken Shares”	all those Underwritten Shares not taken up by the Qualifying Shareholders on or before the Latest Time for Acceptance
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

TERMINATION OF THE UNDERWRITING AGREEMENT

Pursuant to the Underwriting Agreement, the Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company by the Underwriter at any time prior to the Latest Time for Termination with immediate effect if:-

- (i) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (ii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction on trading in securities) occurs which in the absolute opinion of the Underwriter are likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (iii) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (iv) other than coronavirus disease 2019 (COVID-19), any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion or unrest, fire, flood, explosion, epidemic, pandemic,

TERMINATION OF THE UNDERWRITING AGREEMENT

terrorism, strike or lock-out which would, in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole; or

- (v) there occurs any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (vi) any matter which, had it arisen or been discovered immediately before the Posting Date and not having been disclosed in the Rights Issue Documents, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (vii) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than twenty (20) consecutive trading days otherwise than due to or in connection with or in relation to the Underwriting Agreement and/or the Rights Issue and excluding any suspension in connection with the clearance of this announcement or other matters in connection with the Underwriting Agreement and/or the Rights Issue; or
- (viii) the Rights Issue Documents when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter be material to the Group as a whole upon completion of the Rights Issue and is likely to affect materially and adversely the success of the Rights Issue.

In the event the Underwriter exercises its rights to terminate the Underwriting Agreement prior to the Latest Time for Termination, the obligations of the Underwriter thereunder (save for certain exceptions) shall cease and determine and no Party shall have any claim against the other Party under the Underwriting Agreement for costs, damages, compensation or otherwise save for any antecedent breaches.

If the Underwriter exercises such right, the Rights Issue will not proceed. A further announcement will be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

EXPECTED TIMETABLE

The expected timetable for the implementation of the Capital Reorganisation and the Rights Issue is set out below.

Event	2022
Despatch of circular in relation to the Capital Reorganisation and the Rights Issue together with the notice of SGM and proxy form for SGM.....	On or before 21 November
Latest time for lodging transfer documents of the Existing Shares to qualify for attendance and voting at the SGM	4:30 p.m. on Thursday, 8 December
Closure of register of members of the Company for determining the identity of the Shareholders entitled to attend and vote at the SGM (both dates inclusive)	Friday, 9 December to Wednesday, 14 December
Latest time for lodging proxy forms for the SGM	4:30 p.m. on Monday, 12 December
Record date for attendance and voting at the SGM	Wednesday, 14 December
Expected date and time of the SGM to approve the Capital Reorganisation and the Rights Issue	4:30 p.m. on Wednesday, 14 December
Announcement of the poll results of the SGM	Wednesday, 14 December
Register of members of the Company re-open.....	Thursday, 15 December
Effective date of the Capital Reorganisation	Friday, 16 December
Commencement of dealings in the Adjusted Shares	9:00 a.m. on Friday, 16 December
Original counter for trading in Existing Shares in the board lot size of 10,000 Existing Shares (in the form of existing share certificates) temporarily closes	9:00 a.m. on Friday, 16 December

EXPECTED TIMETABLE

Event	2022
Temporary counter for trading in the Adjusted Shares in the board lot size of 500 Adjusted Shares (in the form of existing share certificates) opens	9:00 a.m. on Friday, 16 December
First day of free exchange of existing share certificates for new share certificates for Adjusted Share	Friday, 16 December
Last day of dealings in Adjusted Shares on a cum-rights basis	Friday, 16 December
First day of dealings in Adjusted Shares on an ex-rights basis	Monday, 19 December
Latest time for lodging transfer of Adjusted Shares in order to qualify for the Rights Issue	4:30 p.m. on Tuesday, 20 December
Register of members of the Company closes (both days inclusive)	Wednesday, 21 December to Thursday, 29 December
Record Date for determining entitlements to the Rights Issue	Thursday, 29 December
Register of members of the Company re-opens	Friday, 30 December
Despatch of Prospectus Documents (in the case of Non-Qualifying Shareholders, the Prospectus only)	Friday, 30 December

EXPECTED TIMETABLE

Event	2023
First day of dealing in nil-paid Rights Shares	Wednesday, 4 January
Original counter for trading in the Adjusted Shares in the board lot size of 10,000 Adjusted Shares (in the form of new share certificates) reopens	9:00 a.m. on Wednesday, 4 January
Parallel trading in the Adjusted Shares (in the form of both existing share certificates and new share certificates) commences	9:00 a.m. on Wednesday, 4 January
Designated broker starts to stand in the market to provide matching services for odd lots of the Adjusted Shares	9:00 a.m. on Wednesday, 4 January
Latest time for splitting of the PAL	4:30 p.m. on Friday, 6 January
Last day of dealing in nil-paid Rights Shares	Wednesday, 11 January
Latest Time for Acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares	4:00 p.m. on Monday, 16 January
Latest Time for Termination of the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Tuesday, 17 January
Announcement of results of the Rights Issue	Thursday, 26 January
Designated broker ceases to provide matching services for odd lots of the Adjusted Shares	4:00 p.m. on Friday, 27 January
Temporary counter for trading in the Adjusted Shares in the board lot size of 500 Adjusted Shares (in the form of existing share certificates) closes	4:10 p.m. on Friday, 27 January

EXPECTED TIMETABLE

Event	2023
Parallel trading in Adjusted Shares (represented by both existing share certificates and new share certificates) ends	4:10 p.m. on Friday, 27 January
Despatch of certificates for fully-paid Rights Shares and refund cheques, if any, in respect of wholly or partially unsuccessful applications.	Friday, 27 January
Expected first day of dealings in fully-paid Rights Shares	9:00 a.m. on Monday, 30 January
Last day for free exchange of existing share certificates for new share certificates	Tuesday, 31 January

Note: All times and dates in this circular refer to Hong Kong local times and dates. In the event that any special circumstances arise, such dates and deadlines may be adjusted by the board of directors of the Company if it considers appropriate. Any changes to the expected timetable will be published or notified to the Shareholders by way of announcement(s) on the website of the Stock Exchange and on the website of the Company as and when appropriate.

EFFECT OF BAD WEATHER ON LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES AND FOR APPLICATION AND PAYMENT FOR EXCESS RIGHTS SHARES

The latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning or “extreme conditions” caused by super typhoon issued by the Hong Kong Observatory:

- (1) in force in Hong Kong at any time before 12:00 noon and no longer in force after 12:00 noon on the Final Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
- (2) in force in Hong Kong at any time between 12:00 noon and 4:00 p.m. on the Final Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares 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 of and payment for the Rights Shares and for application and payment for excess Rights Shares does not take place on the currently scheduled date for the Final Acceptance Date, the dates mentioned in “Expected Timetable” in this circular may be affected. The Company will notify the Shareholders by way of announcement of any change to the expected timetable as soon as practicable in this regard.

LETTER FROM THE BOARD



China Zenith Chemical Group Limited
中國天化工集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

Executive Directors:

Ms. Chan Yuk Foebe (*Chairman and Chief Executive Officer*)
Mr. Gao Ran (*Vice-chairman*)
Mr. Law Tze Ping Eric

Non-executive Director:

Mr. Liu Yangyang

Independent non-executive Directors:

Mr. Ma Wing Yun Bryan
Mr. Tam Ching Ho
Mr. Hau Chi Kit

Registered office:

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

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

Room 4007, 40/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

21 November 2022

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED CAPITAL REORGANISATION;
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF
FIVE (5) RIGHTS SHARES FOR EVERY TWO (2)
ADJUSTED SHARES HELD ON RECORD DATE; AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Capital Reorganisation and the Rights Issue.

The purpose of this circular is to provide you with, among other things, (i) further details of the Capital Reorganisation; (ii) further details of the Rights Issue; (iii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in

LETTER FROM THE BOARD

respect of the Rights Issue; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (v) a notice convening the SGM.

PROPOSED CAPITAL REORGANISATION

The Board proposes to implement the Capital Reorganisation involving (i) the Share Consolidation whereby every twenty (20) Existing Shares will be consolidated into one (1) Consolidated Share; (ii) the Capital Reduction whereby the issued share capital of the Company will be reduced by (a) rounding down the total number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid up capital of the Company to the extent of HK\$1.9 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK\$2.0 to HK\$0.1; (iii) the Share Sub-division whereby each of the authorised but unissued Consolidated Shares will be divided into twenty (20) Adjusted Shares of HK\$0.1 each; (iv) the Share Premium Reduction whereby the entire amount standing to the credit of the Share Premium Account will be reduced to nil; and (v) the transfer of all the credits arising from the Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company within the meaning of the Companies Act which will be applied to reduce the accumulated losses of the Company or be applied by the Board in any other manner in accordance with the bye-laws of the Company and all applicable laws of Bermuda from time to time without further authorisation from the Shareholders.

As at the Latest Practicable Date, the total authorised share capital of the Company is HK\$500,000,000 divided into 5,000,000,000 Existing Shares of HK\$0.1 each, of which 3,014,560,978 Existing Shares have been issued and fully paid or credited as fully paid. Immediately following the Capital Reorganisation, 5,000,000,000 Existing Shares of HK\$0.1 each will become 5,000,000,000 Adjusted Shares of HK\$0.1 each, of which 150,728,048 Adjusted Shares will be in issue and the aggregate nominal value of the issued share capital of the Company will become HK\$15,072,804.8 (assuming that no further Existing Shares are issued or repurchased or surrendered from the Latest Practicable Date until the Effective Date). A credit of HK\$286,383,291.2 will arise as a result of the Capital Reduction becoming effective after the Capital Reorganisation. As at the Latest Practicable Date, the Company has a credit balance of approximately HK\$172,006,081 standing in the Share Premium Account. The credit arising from the Capital Reduction and the Share Premium Reduction will be transferred to the contributed surplus account of the Company within the meaning of the Companies Act and be applied towards reducing the accumulated losses of the Company as at the effective date of the Capital Reduction and Share Premium Reduction.

LETTER FROM THE BOARD

Assuming no further Existing Shares are issued or repurchased or surrendered from the Latest Practicable Date until the Effective Date, the share capital structure of the Company will be as follows:

	As at the Latest Practicable Date	Immediately upon the Share Consolidation becoming effective	Immediately upon the Capital Reorganisation becoming effective
Amount of authorised share capital	HK\$500,000,000	HK\$500,000,000	HK\$500,000,000
Nominal value of each Existing Share/ Consolidated Share/ Adjusted Share	HK\$0.1 per Existing Share	HK\$2.0 per Consolidated Share	HK\$0.1 per Adjusted Share
Number of authorised Existing Shares/ Consolidated Shares/ Adjusted Shares	5,000,000,000 Existing Shares	250,000,000 Consolidated Shares	5,000,000,000 Adjusted Shares
Number of issued Existing Shares/ Consolidated Shares/ Adjusted Shares	3,014,560,978 Existing Shares	150,728,048 Consolidated Shares	150,728,048 Adjusted Shares
Issued and fully paid-up share capital	HK\$301,456,097.8	HK\$301,456,096	HK\$15,072,804.8

Under the laws of Bermuda, the Directors may apply the amount standing to the credit of the contributed surplus account of the Company in any manner permitted by the Companies Act and the bye-laws of the Company.

Fractional entitlement to the Consolidated Shares

Any fractional Consolidated Share to which an individual Shareholder is entitled to will not be issued by the Company to such Shareholder, but will be aggregated, sold and retained for the benefit of the Company. Any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation shall be cancelled.

Shareholders concerned about losing out on any fractional entitlement are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other

LETTER FROM THE BOARD

professional adviser and may wish to consider the possibility of buying or selling Existing Shares in a number sufficient to make up an entitlement to receive a whole number of Adjusted Shares.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (a) the passing of the necessary special resolution(s) by the Shareholders approving the Capital Reorganisation at the SGM;
- (b) the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation;
- (c) the compliance with the relevant procedures and requirements under the Listing Rules and section 46(2) of the Companies Act to effect the Capital Reorganisation; and
- (d) all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation having been obtained.

The requirements of section 46(2) of the Companies Act include (i) publication of a notice in relation to the Capital Reduction and the Share Premium Reduction in an appointed newspaper in Bermuda on a date not more than thirty days and not less than fifteen days before the Effective Date; and (ii) that on the Effective Date, there are no reasonable grounds for believing that the Company is, or after the Effective Date would be, unable to pay its liabilities as they become due.

Effects of the Capital Reorganisation

Implementation of the Capital Reorganisation will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders, except for the payment of the related expenses.

The Board believes that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group or its overall net asset value. The Board does not expect that on the Effective Date, there will be any reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due. No outflow of resources will be caused by the Capital Reorganisation, except for the expenses expected to be insignificant in the context of the net asset value of the Company. The Capital Reorganisation itself does not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any paid up capital of the Company nor will it result in any change in the relative rights of the Shareholders.

LETTER FROM THE BOARD

Listing application and dealings

An application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Adjusted Shares in issue and to be issued upon the Capital Reorganisation becoming effective.

Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date 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 settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the Adjusted Shares to be admitted into CCASS established and operated by HKSCC.

None of the Existing Shares or any debt securities of the Company are listed or dealt in on any other stock exchange other than the Stock Exchange, and at the time the Capital Reorganisation becomes effective, the Adjusted Shares in issue will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

Status of the Adjusted Shares

The Adjusted Shares in issue will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, which is expected to be on Friday, 16 December 2022, Shareholders may, during the prescribed period between Friday, 16 December 2022 and Tuesday, 31 January 2023 (both days inclusive), submit existing share certificates in the colour of purple for the Existing Shares to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, to exchange, at the expense of the Company, for new share certificates in the colour of yellow for the Adjusted Shares. Thereafter, the existing share certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) for each existing share certificate for the Existing Shares cancelled or each new share certificate issued for Adjusted Shares, whichever number of certificates issued or cancelled is higher. The existing share certificates will only be valid for delivery, trading and settlement purposes for the period up to 4:10 p.m. on Friday, 27 January 2023 and thereafter will not be accepted for delivery, trading and settlement purposes. Nevertheless, existing share certificates for the Existing Shares

LETTER FROM THE BOARD

will continue to be good evidence of legal title and may be exchanged for new share certificates for the Adjusted Shares at any time.

Board lot size

Upon the Capital Reorganisation becoming effective, the board lot size of the Adjusted Shares for trading on the Stock Exchange will remain unchanged at 10,000 Adjusted Shares per board lot, which is the same board lot size for trading of the Existing Shares on the Stock Exchange.

Adjustments in relation to the other securities of the Company

As at the Latest Practicable Date, there are (i) outstanding Share Options entitling the holders thereof to subscribe for up to an aggregate of 99,135,542 Existing Shares under the Share Option Scheme adopted by the Company on 20 December 2012 and granted on 3 November 2020; and (ii) outstanding Convertible Bonds in the aggregate principal amount of HK\$20,000,000 issued by the Company on 13 November 2020, entitling the subscribers thereof to convert up to an aggregate of 65,146,579 Existing Shares.

The Company will make further announcement(s) as and when appropriate on any adjustments to be made as a result of the Capital Reorganisation to (i) the exercise price and the aggregate number of shares to be allotted and issued upon exercise of the subscription rights attaching to the outstanding Share Options; and (ii) to the conversion price and the aggregate number of shares to be allotted and issued upon exercise of the conversion rights under the Convertible Bonds.

Save as disclosed above, as at the Latest Practicable Date, the Company does not have any other share options, derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into, any Existing Shares, Consolidated Shares or Adjusted Shares.

REASONS FOR THE CAPITAL REORGANISATION

Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the issuer may be required either to change the trading method or to proceed with a consolidation or splitting of its securities. According to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Stock Exchange, (i) market price of the securities of an issuer at a level less than HK\$0.10 will be considered as trading at extremity as referred to under Rule 13.64 of the Listing Rules; and (ii) the expected value per board lot should be greater than HK\$2,000.

As at the Latest Practicable Date, the closing price of the Existing Share is HK\$0.010 per Share, with a board lot size of 10,000 Shares, the existing board lot value is only HK\$100, which is less than HK\$2,000. In view of the recent market price of the Existing Shares, the Directors resolved to propose the Share Consolidation with the view to complying with the

LETTER FROM THE BOARD

trading requirements under the Listing Rules. In view of the recent trading prices of the Existing Shares at the level of below HK\$0.10 and board lot value of below HK\$2,000, the Share Consolidation would bring about a corresponding upward adjustment in the market price of the Consolidated Shares which would enable the Company to comply with the trading requirements under the Listing Rules. Assuming that the Capital Reorganisation has become effective, based on the closing price of HK\$0.010 per Existing Share (equivalent to the theoretical closing price of HK\$0.20 per Adjusted Share) as at the Latest Practicable Date, the estimated new board lot value would be HK\$2,000.

Upon the Share Consolidation becoming effective but before implementation of the Capital Reduction, the par value of the Existing Shares will be consolidated from HK\$0.1 into HK\$2.0 per Consolidated Share. Under Bermuda law, a company may not issue shares at a discount to the par value of such shares. The Capital Reorganisation involves the Capital Reduction which will reduce the par value of the Consolidated Shares and keep the par value of the Adjusted Shares at a level of HK\$0.1 per Adjusted Share, which will facilitate the proposed Rights Issue as discussed below and allow greater flexibility in the pricing for any issue of new Shares in the future when necessary.

Further, the credit in the contributed surplus account arising from the Capital Reorganisation will enable the Company to reduce its accumulated losses. As such, the Board proposes to implement the Capital Reorganisation.

In view of the above, the Board considers that the Capital Reorganisation is beneficial to and in the interests of the Company and the Shareholders as a whole.

PROPOSED RIGHTS ISSUE

Subject to the Capital Reorganisation becoming effective, the Board proposes to implement the Rights Issue on the basis of five (5) Rights Shares for every two (2) Adjusted Shares held by the Qualifying Shareholders on the Record Date at the Subscription Price of HK\$0.2 per Rights Share, to raise gross proceeds up to approximately HK\$79.5 million before expenses by way of a rights issue of up to 397,355,377 Rights Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date). The net proceeds from the Rights Issue (after deducting the estimated expenses) are estimated to be not more than approximately HK\$77.6 million.

On 18 October 2022 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter, pursuant to which the Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares of 312,077,930 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date) or 332,613,187 Rights Shares being the maximum total number of Rights Share issuable (assuming new Shares are allotted and issued on

LETTER FROM THE BOARD

or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), excluding the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking, subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfilment of the conditions precedent contained therein. Details of the major terms and conditions precedent of the Underwriting Agreement are set out in the paragraph headed “The Underwriting Agreement” in this circular.

The terms of the Rights Issue are set out below:

Issue Statistics

Basis of the Rights Issue:	Five (5) Rights Shares for every two (2) Adjusted Shares held on the Record Date
Subscription Price:	HK\$0.2 per Rights Share
Number of existing Shares in issue as at the Latest Practicable Date:	3,014,560,978 Shares
Number of the Adjusted Shares in issue upon the Capital Reorganisation becoming effective (assuming no further issue of Shares from the Latest Practicable Date to the Record Date):	150,728,048 Adjusted Shares
Number of the Shares/Adjusted Shares which may be issued upon full exercise of the subscription rights attaching to the outstanding Share Options:	Up to 99,135,542 Shares (before the Capital Reorganisation) or up to 4,956,777 Adjusted Shares (after the Capital Reorganisation)
Number of the Shares/Adjusted Shares which may be issued upon full exercise of the conversion rights attaching to the Convertible Bonds:	Up to 65,146,579 Shares (before the Capital Reorganisation) or up to 3,257,328 Adjusted Shares (after the Capital Reorganisation)

LETTER FROM THE BOARD

Number of Rights Shares:	Up to 397,355,377 Rights Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Aggregate nominal value of the Rights Shares:	Up to HK\$39,735,537.7 (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Maximum funds to be raised before expenses:	Up to approximately HK\$79.5 million (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Number of Rights Shares undertaken to be taken up:	Mr. Chan has undertaken to take up an aggregate of 64,742,190 Rights Shares under his assured entitlement. As at the Latest Practicable Date, Mr. Chan holds 517,937,537 Shares (before the Capital Reorganisation) or 25,896,876 Adjusted Shares (after the Capital Reorganisation), representing approximately 17.18% of the entire issued share capital of the Company. The Irrevocable Undertaking is subject to a cap and the maximum number of Rights Shares together with the Adjusted Shares already held by Mr. Chan shall not be more than 29.99% of the total enlarged issued share capital of the Company at completion of the Rights Issue so as not to trigger any obligation for a general offer under the Takeovers Code

LETTER FROM THE BOARD

The Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares of 312,077,930 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date) or 332,613,187 Rights Shares being the maximum total number of Rights Share issuable (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), excluding the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking

Right of excess applications:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional entitlements
Total number of Shares in issue as enlarged by the Rights Shares upon completion of the Rights Issue:	527,548,168 Adjusted Shares (assuming no change in the number of Shares in issue on or before the Record Date) 556,297,528 Adjusted Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Underwriter:	Koala Securities Limited

Assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date, 376,820,120 Rights Shares proposed to be allotted and issued pursuant to the terms of the Rights Issue represents approximately 250% of the Company's entire issued share capital as at the Latest Practicable Date (assuming the Capital Reorganisation has taken effect) and will represent approximately 71.43% of the Company's entire issued share capital as enlarged by the issue of the Rights Shares immediately after completion of the Rights Issue.

LETTER FROM THE BOARD

Save for the Share Options and the Convertible Bonds, the Company has no outstanding derivatives, convertible securities, options, warrants or other similar securities in issue which would otherwise confer any right to subscribe for, convert or exchange into Shares. The Company has no intention to issue or grant any Shares, convertible securities and/or options on or before the Record Date.

The Rights Issue is only underwritten on a best effort basis and is not on a fully underwritten basis. Pursuant to the Company's constitutional documents and the Companies Act, there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfilment or satisfaction of the conditions precedent of the Rights Issue, the Rights Issue shall proceed regardless of the conditions of its level of acceptances, and up to 64,742,190 Rights Shares are committed to be subscribed pursuant to the Irrevocable Undertaking subject, however, to any Scaling-down vis-a-vis the MGO Obligation.

In the event of under-subscription, any Rights Shares not taken up by the Qualifying Shareholders whether under PAL(s) or EAF(s), or transferees of nil-paid Rights Shares, and not subscribed by subscribers procured by the Underwriter will not be issued, and hence, the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be Thursday, 29 December 2022 and such Shareholder must not be a Non-Qualifying Shareholder. In order to be registered as a member of the Company on the Record Date, any transfer of Shares (together with the relevant share certificate(s)) must be lodged with the branch share registrar of the Company in Hong Kong for registration by 4:30 p.m. on the Last Day for Transfer. The register of members of the Company will be closed from Wednesday, 21 December 2022 to Thursday, 29 December 2022, both days inclusive.

The branch share registrar of the Company in Hong Kong is Tricor Tengis Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. The last day of dealings in the Adjusted Shares on a cum-rights basis is Friday, 16 December 2022. The Adjusted Shares will be dealt with on an ex-rights basis from Monday, 19 December 2022.

The Latest Time for Acceptance is expected to be 4:00 p.m. on the Final Acceptance Date.

Qualifying Shareholders who take up their pro rata entitlement in full will not suffer any dilution to their interests in the Company (except in relation to any dilution resulting from the taking up by third parties of any Rights Shares arising from the aggregation of fractional entitlements). If a Qualifying Shareholder does not take up

LETTER FROM THE BOARD

any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

The Company expects to send the Rights Issue Documents to the Qualifying Shareholders on or before the Posting Date. Subject to the advice of the Company's legal advisers in the relevant jurisdiction(s) and to the extent reasonably practicable, the Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send any PAL or EAF to them. A copy of the Prospectus will also be made available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website.

Closure of Register of Members

For the purpose of determining entitlements to the Rights Issue, the register of members of the Company will be closed from Wednesday, 21 December 2022 to Thursday, 29 December 2022, both days inclusive. No transfer of Shares will be registered during this period.

Non-Qualifying Shareholders

The Rights Issue Documents are not intended to be registered or filed under the applicable securities legislation or equivalent legislation of any jurisdictions other than Hong Kong.

In compliance with the necessary requirements of the Listing Rules, the Company will make enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders. The Company notes the requirements specified in section 140 of the Companies Ordinance and Rule 13.36(2)(a) of the Listing Rules and will only exclude from the Rights Issue the Overseas Shareholders whom the Directors, after making enquiries, consider it necessary or expedient to exclude on account of either the legal restrictions under the laws of the relevant jurisdictions or any requirements of the relevant regulatory bodies or stock exchanges in such jurisdictions. The basis of exclusion of the Non-Qualifying Shareholders from the Rights Issue, if any, will be disclosed in the Prospectus. The Company will not offer the Rights Shares to the Non-Qualifying Shareholders. Accordingly, no provisional allotment of Rights Shares will be sent to the Non-Qualifying Shareholders. The Company will, subject to the advice of the Company's legal advisers in the relevant jurisdiction(s) where the Non-Qualifying Shareholders are located and to the extent reasonably practicable, send copies of the Prospectus with the Overseas Letter to the Non-Qualifying Shareholders (if any) for their information only, but the Company will not send any PAL and EAF to them.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders had they been Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and in any event before dealings in the

LETTER FROM THE BOARD

nil-paid Rights Shares end, if a premium in excess of all expenses of sale can be obtained. The aggregate net proceeds of such sale will be distributed by the Company to the Non-Qualifying Shareholders (pro-rata to their respective entitlements on the Record Date and round down to the nearest cent) in Hong Kong dollars, provided that if any of such Non-Qualifying Shareholders would be entitled to a sum not less than HK\$100. In view of administrative costs, the Company will retain individual amount of less than HK\$100 for its own benefit.

Any unsold nil-paid Rights Shares to which such Non-Qualifying Shareholders (if any) would otherwise have been entitled will be made available for excess application by the Qualifying Shareholders under the EAFs.

Overseas Shareholders and beneficial owners of the Shares who are residing outside Hong Kong should note that they may or may not be entitled to the Rights Issue pursuant to section 140 of the Companies Ordinance and Rule 13.36(2)(a) of the Listing Rules subject to the results of the enquiries made by the Board. The Company reserves the right to treat as invalid any acceptance of or applications for Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Overseas Shareholders and beneficial owners of the Shares who are residing outside Hong Kong should exercise caution when dealing in the Shares.

The Rights Issue does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire, nil-paid Rights Shares or fully-paid Rights Shares or to take up any entitlements to nil-paid Rights Shares or fully-paid Rights Shares in any jurisdiction in which such an offer or solicitation is unlawful. Shareholders and beneficial owners of the Shares (including, without limitation, their respective agents, custodians, nominees and trustees) should inform themselves of and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

TERMS OF THE RIGHTS ISSUE

Subscription Price

The Subscription Price of HK\$0.20 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a renounee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

- (i) the equivalence of the theoretical closing price of HK\$0.20 per Adjusted Share with reference to the closing price of HK\$0.010 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation;

LETTER FROM THE BOARD

- (ii) a discount of approximately 28.57% to the Last Closing Price;
- (iii) a discount of approximately 25.93% to the theoretical average closing price of approximately HK\$0.27 per Adjusted Share with reference to the average closing price per Share as quoted on the Stock Exchange for the five (5) consecutive trading days ending on and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iv) a discount of approximately 25.93% to the theoretical average closing price of approximately HK\$0.27 per Adjusted Share with reference to the average closing price per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days ending on and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (v) a discount of approximately 33.33% to the theoretical average of the closing prices of approximately HK\$0.30 per Adjusted Share with reference to the average closing price per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (vi) a discount of approximately 9.10% to the theoretical ex-right price of approximately HK\$0.22 per Adjusted Share, based on the theoretical ex-right price of approximately HK\$0.011 per Share and the Last Closing Price;
- (vii) a premium over the audited net liabilities value per Adjusted Share of approximately HK\$5.47 (based on the latest published consolidated net liabilities value of the Group of approximately HK\$824,850,000 as at 30 June 2022 as disclosed in the annual report of the Company for the year ended 30 June 2022 and 150,728,048 Adjusted Shares based on 3,014,560,978 Shares in issue as at the Latest Practicable Date for the effect of the Capital Reorganisation);
- (viii) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 21.43%, represented by the theoretical diluted price of approximately HK\$0.22 per Adjusted Share to the benchmarked price of approximately HK\$0.28 per Adjusted 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\$0.014 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the date of the Announcement of HK\$0.0136 per Share); and
- (ix) a cumulative theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) in aggregation with the 2021 Rights Issue represented by a discount of approximately 21.80%, represented by the cumulative theoretical diluted price of approximately HK\$2.08 per Adjusted Share to the theoretical benchmarked price of HK\$2.66 per Adjusted Share in respect of the 2021 Rights Issue (after taking into

LETTER FROM THE BOARD

account the effect of the Capital Reorganisation) (as defined under Rule 7.27B of the Listing Rules, taking into account the benchmarked price of the 2021 Rights Issue, being HK\$0.133 per Share).

The par value of each Rights Share is HK\$0.10.

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK\$0.195.

The Subscription Price and the subscription ratio were determined by the Directors with reference to (i) the market price of the Shares prior to and including the Last Trading Day; (ii) the prevailing market conditions; and (iii) the fund-raising size intended by the Company after taking into consideration of the par value per Share of the Company. According to the relevant Bermuda laws, the Company shall not issue shares at a price below its par value.

It is a common market practice that, in order to enhance the attractiveness of rights issue to existing shareholders, the subscription price would be set at a discount to the prevailing market prices of the relevant shares. The Company considers that the Subscription Price provides a more attractive opportunity to encourage the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholding interests in the Company and is therefore fair and reasonable.

The Directors consider 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 five (5) Rights Shares for every two (2) Adjusted Shares held by the Qualifying Shareholders on the Record Date.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited on or before the Latest Time for Acceptance.

LETTER FROM THE BOARD

Fractional entitlements to the Rights Shares

The Company will not provisionally allot and issue and will not accept application for any fraction of the Rights Shares and the entitlements of the Qualifying Shareholders will be rounded down to the nearest whole number. All fractions of Rights Shares will be aggregated (rounded down to the nearest whole number). All nil-paid Rights Shares arising from such aggregation will be provisionally allotted (in nil-paid form) and sold in the market for the benefit of the Company if a premium (net of expenses) can be obtained, and the Company will retain the proceeds from such sale. Any unsold fractions of Rights Shares will be made available for excess application by the Qualifying Shareholders under the EAFs.

Odd lot trading arrangement

Upon completion of the Rights Issue, the board lots of the Company will remain as 10,000 Shares. In order to facilitate the trading of odd lots of Shares which will arise upon the Rights Issue, the Company will procure the Underwriter to stand in the market and provide matching services on a best effort basis for the holders of odd lots of Shares during the period between Wednesday, 4 January 2023 to Friday, 27 January 2023 (both days inclusive). Holders of odd lots Shares who wish to take advantage of this facility either to dispose of their odd lots of Shares or to top up to board lots of 10,000 Shares may contact the Underwriter as soon as possible during the period. The Underwriter is an independent third party not connected with the Company or any of the directors, chief executives, or substantial shareholders of the Company or any of its subsidiaries or associates. Holders of Shares in odd lots should note that the matching services mentioned above are on a “best effort” basis only and successful matching of the sale and purchase of odd lots of Shares is not guaranteed and will depend on there being adequate amount of odd lots of Shares available for matching. Shareholders are advised to consult their financial advisers if they are in doubt about the above arrangements. Further details of the odd lot matching services will be provided in the Prospectus.

Status of the Rights Shares

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

LETTER FROM THE BOARD

Application for Excess Rights Shares

The Company shall make the Excess Rights Shares available for subscription by the Qualifying Shareholders by means of EAFs, and the Excess Rights Shares represent:

- (i) any nil-paid Rights Shares provisionally allotted but not accepted by any of the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares prior to the Latest Time for Acceptance;
- (ii) subject to the provisions of the Underwriting Agreement, any entitlements of the Non-Qualifying Shareholder provisionally allotted to a nominee of the Company which are left unsold;
- (iii) any of the Rights Shares created from the aggregation of fractions of the Rights Shares; and
- (iv) the Scale-down PAL Shares (if any).

Application for Excess Rights Shares can be made by the Qualifying Shareholders only and by duly completing and signing an EAF (in accordance with the instructions printed therein) and lodging the same with a separate remittance for the Excess Rights Shares being applied for with the branch share registrar of the Company in Hong Kong no later than 4:00 p.m. on Monday, 16 January 2023. The Directors will, upon consultation with the Underwriter, allocate any Excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (i) any Excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of the Excess Rights Shares applied for;
- (ii) reference will only be made to the number of Excess Rights Shares being applied for but no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders;
- (iii) if the aggregate number of Rights Shares not taken up by the Qualifying Shareholders and/or transferees of nil-paid Rights Shares under the PALs is greater than the aggregate number of Excess Rights Shares applied for through the EAFs, the Company will allocate to each Qualifying Shareholder who applies for Excess Rights Shares in full application; and
- (iv) no preference will be given to topping up odd-lots to whole board lots.

Shareholders with their Shares held by a nominee company (or which are deposited in CCASS) should note that the Board will regard such nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to

LETTER FROM THE BOARD

the allocation of the Excess Rights Shares will not be extended to the relevant beneficial owners individually save and except for the beneficial owner(s) which the Company may permit in its absolute discretion. Shareholders with their Shares held by a nominee company (or which are held in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares under their own names on or prior to the Record Date for the purpose of the Rights Issue. Shareholders who would like to have their names registered on the register of members of the Company on the Record Date, must lodge all necessary documents with the branch share registrar of the Company in Hong Kong for registration by no later than 4:30 p.m. on Tuesday, 20 December 2022. Shareholders and investors of the Company should consult their professional advisers if they are in doubt as to their status.

Share certificates and refund cheques for the Rights Issue

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for fully paid Rights Shares are expected to be posted to those who have accepted and (where applicable) applied for, and paid for, the Rights Shares by ordinary post at their own risk on or before Friday, 27 January 2023. Each Shareholder will receive one share certificate for all allotted Rights Shares, except HKSCC Nominees Limited. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted to the applicants by ordinary post at their own risk on or before Friday, 27 January 2023.

Scale-down of subscriptions to avoid the triggering of MGO Obligation

Pursuant to the Underwriting Agreement, as the Rights Issue is only underwritten by the Underwriters on a best effort basis, and so as to avoid the unwitting triggering of the MGO Obligation and/or any non-compliance with the Public Float Requirement, all applications for Rights Shares under the PAL(s), or by transferees of nil-paid Rights Shares, or by subscribers procured by the Underwriters (or either of them, whichever shall be appropriate) will be made on the basis that the applications are to be scaled-down by the Company to a level which does not trigger an MGO Obligation on the part of the applicant or parties acting in concert with him/her/it. Any subscription monies for the Scale-down PAL Shares will be refunded to the applicants, and the Scale-down PAL Shares will be made available for subscription by other Qualifying Shareholders through the EAF(s).

In addition, under and/or pursuant to the Scaling-down, any application for Rights Shares under PAL(s), shall be subject to the scale-down mechanisms of the Rights Issue as determined by the Company to levels which do not trigger any MGO Obligation. Such scale-down of applications of Rights Shares shall operate on a fair and equitable basis under the following principle: where the scale-down is necessitated by the exceeding of shareholding by a group rather than an individual Shareholder, the allocations of PAL(s) to members of the affected group should be made on a pro rata basis by reference to the number of Shares held by the affected applicants on the Record Date, but for avoidance of any doubt, any or any such onward allocation(s) shall be subject to the Scaling-down as well.

LETTER FROM THE BOARD

Qualifying Shareholders who wish to apply for excess Rights Shares in addition to their provisional allotment must complete and sign an EAF and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited on or before the Latest Time for Acceptance.

Application for Listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. No part of the securities of the Company is listed, or dealt in, or for which listing or permission to deal is being or is proposed to be sought, on any other stock exchange. Nil-paid Rights Shares are expected to be traded in board lots of 10,000 (as the Shares are currently traded on the Stock Exchange in board lots of 10,000).

Rights Shares will be eligible for admission into CCASS

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 as well as compliance with the stock admission requirements of HKSCC, 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 settlement day after the date of the transaction. 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.

Stamp duty and other applicable fees and charges

Dealings in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee, the Securities and Futures Commission transaction levy and other applicable fees and charges in Hong Kong.

Conditions of the Rights Issue

The Rights Issue is conditional upon the Underwriting Agreement having become unconditional and not being terminated in accordance with the terms thereof.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT AND UNDERTAKING

The Shareholder's undertaking

As at Latest Practicable Date, Mr. Chan, a substantial Shareholder of the Company, directly holds 517,937,537 Existing Shares (before the Capital Reorganisation) or 25,896,876 Adjusted Shares (after the Capital Reorganisation), representing approximately 17.18% of the issued share capital of the Company.

On 18 October 2022, the Company received the Irrevocable Undertaking from Mr. Chan, pursuant to which Mr. Chan has irrevocably undertaken to the Company, among other things, to:

- (i) subscribe for 64,742,190 Rights Shares, which will be provisionally allotted to Mr. Chan nil-paid in respect of the 517,937,537 Existing Shares (before the Capital Reorganisation) or 25,896,876 Adjusted Shares (after the Capital Reorganisation) legally and beneficially owned by Mr. Chan, pursuant to the terms of the Rights Issue Documents provided that the total number of the Rights Shares to be subscribed will be scaled down (if necessary) to the extent that his percentage shareholding in the Company will not be more than 29.99% immediately after completion of the Rights Issue; and
- (ii) ensure that the 517,937,537 Existing Shares (before the Capital Reorganisation) or 25,896,876 Adjusted Shares (after the Capital Reorganisation) currently legally and beneficially owned by Mr. Chan will remain legally and beneficially owned by Mr. Chan on the Record Date.

As at the Latest Practicable Date, Mr. Chan holds 517,937,537 Existing Shares (before the Capital Reorganisation) or 25,896,876 Adjusted Share (after the Capital Recognition), representing approximately 17.18% of the entire issued share capital of the Company. The Irrevocable Undertaking is subject to a cap and the maximum number of Rights Shares together with the Shares already held by Mr. Chan shall not be more than 29.99% of the total enlarged issued share capital of the Company at completion of the Rights Issue so as not to trigger any obligation for a general offer under the Takeovers Code.

The Company has not received, as at the Latest Practicable Date, any information or irrevocable undertaking from any other substantial Shareholder of the Company of any intention in relation to the Rights Shares to be provisionally allotted to that Shareholder under the Rights Issue.

The Underwriting Agreement

On 18 October 2022 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter, pursuant to which the Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares of 312,077,930 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options

LETTER FROM THE BOARD

and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date) or 332,613,187 Rights Shares being the maximum total number of Rights Share issuable (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), excluding the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking, subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfilment of the conditions precedent contained therein.

Principal terms of the Underwriting Agreement

Date: 18 October 2022 (after trading hours)

Issuer: The Company

Underwriter: Koala Securities Limited

The Underwriter is a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO and its ordinary course of business includes underwriting of securities. The Underwriter has complied with Rule 7.19(1)(a) of the Listing Rules

Number of Underwritten Shares: 312,077,930 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date) or 332,613,187 Rights Shares being the maximum total number of Rights Share issuable (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), excluding the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking, underwritten by the Underwriter on a best effort basis pursuant to the terms and conditions of the Underwriting Agreement

LETTER FROM THE BOARD

Underwriting Commission: 1% of the aggregate Subscription Price in respect of the actual number of Underwritten Shares procured by the Underwriter for subscription pursuant to the Underwriting Agreement

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter and its ultimate beneficial owners are independent of the Company and its connected persons. As at the date of the Underwriting Agreement, the Underwriter is not interested in any Shares.

The said commission rate was determined after arm's length negotiations between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. The Directors (including the independent non-executive Directors) consider that the terms of the Underwriting Agreement (including the commission rate) are fair and reasonable so far as the Company and the Shareholders are concerned.

Save for the Underwriting Agreement, the Company has not entered into any agreement, arrangement, understanding or undertaking in regard of the Rights Issue with the Underwriter or any of its connected persons and their respective associate.

Conditions precedent of the Underwriting Agreement

The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms. The Underwriting Agreement is conditional upon the following conditions being fulfilled or waived (as appropriate):

- (i) the passing of the necessary resolutions at the SGM to approve the Capital Reorganisation, the Rights Issue and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Rights Shares) by the Shareholders (other than those who are required to abstain from voting according to the Listing Rules or other application laws and regulations if necessary);
- (ii) the Capital Reorganisation having become effective;
- (iii) the Company and the Underwriter having obtained all necessary consent and/or approval (including passing of all necessary resolutions) for entering into the Underwriting Agreement and the transactions contemplated therein;
- (iv) 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 Rights Issue Documents duly signed by two Directors (or by their attorneys or agents duly authorised in writing) in accordance with section 342C of the Companies (WUMP)

LETTER FROM THE BOARD

- Ordinance as having been approved by resolutions of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (WUMP) Ordinance not later than the Posting Date;
- (v) the posting of the Rights Issue Documents to the Qualifying Shareholders and the posting of the Prospectus to the Non-Qualifying Shareholders for information purpose only, if any, by no later than the Posting Date;
 - (vi) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and the permission to deal in the Rights Shares (in their nil-paid and fully-paid forms) by no later than the first day of dealings in the nil-paid Rights Shares (or such other date as may be agreed between the Company and the Underwriter in writing), and such listing and permission not being withdrawn or revoked prior to the Latest Time for Termination;
 - (vii) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms hereof on or before the Latest Time for Termination;
 - (viii) there being no breach of the undertakings and obligations of the Company under the terms of the Underwriting Agreement at the Latest Time for Termination;
 - (ix) the compliance with and performance by the Company and the Underwriter of all the undertakings and obligations under the terms of the Underwriting Agreement at the Latest Time for Termination;
 - (x) the entering into of binding agreements by the Underwriter with certain subscriber(s) procured by the Underwriter and/or sub-underwriter(s), which shall be Independent Third Parties, for placing and/or sub-underwriting the Rights Shares, such that neither the Underwriter nor any of the subscriber(s) procured by the Underwriter and/or sub-underwriter(s) and/or party or parties acting in concert (having the meaning as set out in the Takeovers Code) with the respective subscribers or any of the connected persons or associates of the respective subscribers shall be interested in 30% or more of the issued share capital of the Company as enlarged by the Rights Issue;
 - (xi) each condition to enable the Rights Shares in their nil-paid or fully-paid forms to be admitted as eligible securities for deposit, clearance and settlement in CCASS having been satisfied on or before the Business Day prior to the commencement of trading of the Rights Shares (in their nil paid and fully-paid forms, respectively) and no notification having been received by the Company from HKSCC by such time that such admission or facility for holding and settlement has been or is to be refused;
 - (xii) there being no Specified Event occurring on or before the Latest Time for Termination; and

LETTER FROM THE BOARD

- (xiii) the Underwriter having received from the Company all the documents required under the Underwriting Agreement in such form and substance satisfactory to the Underwriter in accordance with the times specified therein.

Save for the conditions (viii), (ix), (xii) and (xiii) which can be waived by the Underwriter and the Company in whole or in part jointly, none of the above conditions can be waived. If any of the conditions referred to above is not fulfilled, or waived (where applicable) by the Latest Time for Termination, the Rights Issue will not proceed.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination:

- (i) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (ii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction on trading in securities) occurs which in the absolute opinion of the Underwriter are likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (iii) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the

LETTER FROM THE BOARD

presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

- (iv) other than coronavirus disease 2019 (COVID-19), any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion or unrest, fire, flood, explosion, epidemic, pandemic, terrorism, strike or lock-out which would, in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole; or
- (v) there occurs any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not *ejusdem generis* with any of the foregoing; or
- (vi) any matter which, had it arisen or been discovered immediately before the Posting Date and not having been disclosed in the Rights Issue Documents, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (vii) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than twenty (20) consecutive trading days otherwise than due to or in connection with or in relation to the Underwriting Agreement and/or the Rights Issue and excluding any suspension in connection with the clearance of the Announcement or other matters in connection with the Underwriting Agreement and/ or the Rights Issue; or
- (viii) the Rights Issue Documents when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter be material to the Group as a whole upon completion of the Rights Issue and is likely to affect materially and adversely the success of the Rights Issue.

The Underwriter shall be entitled by a notice in writing to the Company, served on or prior to the Latest Time for Termination, to terminate the Underwriting Agreement and the Rights Issue shall not proceed.

Upon termination pursuant to the terms of the Underwriting Agreement, the obligations of the Underwriter thereunder (save for certain exceptions) shall cease and determine and no Party shall have any claim against the other Party under the Underwriting Agreement for costs, damages, compensation or otherwise save for any antecedent breaches.

LETTER FROM THE BOARD

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if, prior to the Latest Time for Termination:

- (i) any material breach of any of the representations, warranties or undertakings as specified in the Underwriting Agreement comes to the knowledge of the Underwriter;
or
- (ii) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed. A further announcement would be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

LETTER FROM THE BOARD

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE CAPITAL REORGANISATION AND RIGHTS ISSUE

For illustration purposes only, set out below is the shareholding structure of the Company as at Latest Practicable Date, and the effect on the shareholding structure of the Company upon completion of the Capital Reorganisation and the Rights Issue in the manner contemplated under the Underwriting Agreement, is as follows:

- (1) Assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and/or pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company from the Latest Practicable Date up to the Record Date:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Capital Reorganisation		Immediately after completion of the Rights Issue (assuming full acceptance by the Qualifying Shareholders)		Immediately after completion of the Rights Issue (assuming (a) no acceptance by the Qualifying Shareholders (other than the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking); and (b) none of the Untaken Shares are taken up by the Underwriter and its subscribers procured by the Underwriter)		Immediately after completion of the Rights Issue (assuming (a) no acceptance by the Qualifying Shareholders (other than the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking); and (b) all the Untaken Shares are taken up by the Underwriter and its subscribers procured by the Underwriter)	
	<i>No. of Approximate Shares</i>		<i>No. of Approximate Shares</i>		<i>No. of Approximate Shares</i>		<i>No. of Approximate Shares</i>		<i>No. of Approximate Shares</i>	
		<i>%</i>		<i>%</i>		<i>%</i>		<i>%</i>		<i>%</i>
Substantial Shareholder										
Mr. Chan	517,937,537	17.18	25,896,876	17.18	90,639,066	17.18	53,473,600	29.99	90,639,066	17.18
								(Note 3)		
Directors										
Chan Yuk Foebe	2,860,000	0.09	143,000	0.09	500,500	0.09	143,000	0.08	143,000	0.03
Gao Ran	2,440,000	0.08	122,000	0.08	427,000	0.08	122,000	0.07	122,000	0.02
Liu Yangyang	3,320,000	0.11	166,000	0.11	581,000	0.11	166,000	0.09	166,000	0.03
Public Shareholders										
Underwriter, sub-underwriter(s) and/or subscriber(s) procure by it (Note 2)	-	-	-	-	-	-	-	-	312,077,930	59.16
Other public Shareholders	2,488,003,441	82.54	124,400,172	82.54	435,400,602	82.54	124,400,172	69.77	124,400,172	23.58
Total	3,014,560,978	100.00	150,728,048	100.00	527,548,168	100.00	178,304,772	100.00	527,548,168	100.00

LETTER FROM THE BOARD

- (2) Assuming new Shares are allotted and issued subsequent to the completion of the Capital Reorganisation and on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Capital Reorganisation		Immediately after full exercise of all Shares Options and the full conversion of the Convertible Bonds but otherwise no other change in the issued share capital of the Company subsequent to the completion of the Capital Reorganisation up to the Record Date		Assuming full acceptance by all Qualifying Shareholders		Immediately after completion of the Rights Issue (assuming (a) no acceptance by the Qualifying Shareholders (other than the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking); and (b) none of the Untaken Shares are taken up by the Underwriter and its subscribers procured by the Underwriter)		Immediately after completion of the Rights Issue (assuming (a) no acceptance by the Qualifying Shareholders (other than the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking); and (b) all the Untaken Shares are taken up by the Underwriter and its subscribers procured by the Underwriter)	
	No. of Approximate Shares		No. of Approximate Shares		No. of Approximate Shares		No. of Approximate Shares		No. of Approximate Shares		No. of Approximate Shares	
		%		%		%		%		%		%
Substantial Shareholder												
Mr. Chan	517,937,537	17.18	25,896,876	17.18	25,896,876	16.29	90,639,066	16.29	56,992,266	29.99	90,639,066	16.29
												(Note 3)
Directors												
Chan Yuk Foebe	2,860,000	0.09	143,000	0.09	765,590	0.48	2,679,565	0.48	765,590	0.40	765,590	0.14
Gao Ran	2,440,000	0.08	122,000	0.08	122,000	0.08	427,000	0.08	122,000	0.06	122,000	0.02
Liu Yangyang	3,320,000	0.11	166,000	0.11	166,000	0.10	581,000	0.10	166,000	0.09	166,000	0.03
Law Tze Ping Eric	-	-	-	-	622,590	0.39	2,179,065	0.39	622,590	0.33	622,590	0.11
Ma Wing Yun Bryan	-	-	-	-	407,078	0.26	1,424,773	0.26	407,078	0.21	407,078	0.07
Tam Ching Ho	-	-	-	-	407,078	0.26	1,424,773	0.26	407,078	0.21	407,078	0.07
Hau Chi Kit	-	-	-	-	407,078	0.26	1,424,773	0.26	407,078	0.21	407,078	0.07
Public Shareholders												
Holder of the Share Options except for Directors	-	-	-	-	2,490,361	1.57	8,716,263	1.57	2,490,361	1.31	2,490,361	0.45
Holder of the Convertible Bonds	-	-	-	-	3,257,328	2.05	11,400,648	2.05	3,257,328	1.71	3,257,328	0.59
Underwriter, sub-underwriter(s) and/or subscriber(s) procure by it (Note 2)	-	-	-	-	-	-	-	-	-	-	332,613,187	59.79
Other public shareholders	2,488,003,441	82.54	124,400,172	82.54	124,400,172	78.26	435,400,602	78.26	124,400,172	65.48	124,400,172	22.37
Total	3,014,560,978	100.00	150,728,048	100.00	158,942,151	100.00	556,297,528	100.00	190,037,541	100.00	556,297,528	100.00

LETTER FROM THE BOARD

Notes:

1. The above percentage figures are subject to rounding adjustments. Accordingly, figures shown as total may not be an arithmetic aggregation of the figures preceding it.
2. Pursuant to the Underwriting Agreement, the Underwriter shall confirm with the Company the actual number of Untaken Shares as at the Latest Time for Acceptance, and shall procure for subscription therefor on a best effort basis whilst ensuring that (i) each of the subscribers of the Untaken Shares procured by the Underwriters (or the Underwriters concerned, whichever shall be appropriate) shall be an Independent Third Party and not connected with the Company, any of the Directors or chief executive or substantial Shareholders or their respective associates; and (ii) the Underwriter or each subscriber procured by the Underwriters (together with parties acting in concert with the respective subscribers or any of the connected persons or associates of the respective subscribers) shall not hold in aggregate 30% or more of the voting rights of the Company immediately after the Rights Issue. The Company also undertakes to fulfill the Public Float Requirement upon completion of the Rights Issue.
3. The Irrevocable Undertaking is subject to a cap and the maximum number of Rights Shares together with the Shares already held by Mr. Chan shall not be more than 29.99% of the total enlarged issued share capital of the Company at completion of the Rights Issue so as not to trigger any obligation for a general offer under the Takeovers Code.
4. The above tables show that all public Shareholders (including other public Shareholders) will, immediately after completion of the Rights Issue, hold not less than 25% of the issued share capital of the Company and hence the Company will be in compliance with the Public Float Requirement.

REASONS FOR THE PROPOSED RIGHTS ISSUE AND USE OF PROCEEDS

As disclosed in the interim report of the Company for the six months ended 31 December 2021, the Company has issued bonds in 2013 and the aggregate principal amount of the bonds outstanding was HK\$276 million with the maturity date on 11 September 2021. A settlement has been reached between the Company and bondholders to extend the maturity date of the bonds outstanding to 10 September 2025, and the bonds shall bear interest at the rate of 7.5% per annum from 11 September 2021 to 10 September 2025. The interest of the bonds shall accrue and be paid, together with the principal amount of the bonds, on the new maturity date, being 10 September 2025.

As at 31 December 2021, the bonds payable within one year amounted to approximately HK\$212,939,000 and these bonds payable are unsecured and interest bearing at coupon rates of 3% to 12%.

The Company is in the process of negotiating for a settlement of a bond payable to several bondholders in the amount of HK\$100 million. In the event that a settlement is reached between the Company and bondholders, the Company expects the relevant bond payable in the amount of HK\$100 million to be deferred or discounted.

LETTER FROM THE BOARD

The Directors currently intend to use the net proceeds of approximately HK\$77.6 million as follows:

- approximately 87.11% of the net proceeds (approximately HK\$67.6 million) will be used for repayment of the Company’s indebtedness (i.e. the partial repayment of the bonds of the Company of approximately HK\$186.1 million repayable within one year and for more details, please refer to the subparagraph headed “Bonds” in the statement of indebtedness set out in Appendix I to this circular) and interest expenses (excluding those of Mudanjiang BD Power); and
- approximately 12.89% of the net proceeds (approximately HK\$10 million) will be used for general working capital of the Group.

In the event that there is an under-subscription of the Rights Issue, the net proceeds of the Rights Issue will be utilised in proportion to the above uses.

As disclosed in the announcement of unaudited results for the year ended 30 June 2022 of the Company dated 29 September 2022, the operation of Mudanjiang Better Day Power Limited (“**Mudanjiang BD Power**”) was temporarily taken-over by Mudanjiang Authority of Housing and Urban-Rural Development and upon the cease of control over Mudanjiang BD Power, Mudanjiang BD Power should be deemed as deconsolidated from the consolidated financial statements of the Group and be classified as a discontinued operation as from 26 August 2022. None of the net proceeds of the Rights Issue will be utilised for repayment of the indebtedness of Mudanjiang BD Power.

Apart from the Rights Issue, the Directors have considered other debt/equity fund-raising alternatives such as bank borrowings, placing or an open offer. The Directors noted that bank borrowings will carry interest costs and may require the provision of security and creditors will rank before the Shareholders, and placings will dilute the interests of Shareholders without giving them the opportunity to take part in the exercise. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market. The Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Company.

Having considered the abovementioned alternatives, the Directors consider raising funds by way of the Rights Issue is more attractive in the current market condition and the Rights Issue will enable the Company to strengthen its working capital base and enhance its financial position, while at the same time, allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company, and thus, in the interests of the Company and the Shareholders as a whole.

Based on the above, the Board considers that raising capital through the Rights Issue is in the interests of the Company and the Shareholders as a whole. In addition, having considered the capital needs of the Group, the terms of the Rights Issue and the Subscription Price, the Board also considers that it is in the interests of the Company to proceed with the Rights Issue.

LETTER FROM THE BOARD

However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholder(s), if any, should note that their shareholdings will be diluted.

The estimated expenses in relation to the Rights Issue, including financial, legal and other professional expenses, of approximately HK\$1.9 million, will be borne by the Company. Assuming (1) full acceptance by the Qualifying Shareholders; (2) new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds; and (3) no other change in the share capital of the Company on or before the Record Date, the estimated net proceeds of the Rights Issue will be not more than approximately HK\$77.6 million.

EQUITY FUND-RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company has conducted the following fund-raising activity involving issue of securities in the twelve (12) months before the Latest Practicable Date:

Date of announcement/ circular/prospectus	Fund-raising activity	Net proceeds (approximate)	Intended use of proceeds as announced	Actual use of proceeds
13 November 2021, 15 December 2021, 6 January 2022	Rights issue	HK\$101.13 million	Approximately HK\$81.13 million for the repayment of the Group's indebtedness and interest expenses and approximately HK\$20 million as general working capital of the Group	All net proceeds have been fully utilised as intended

Save as disclosed above, the Company had not conducted any other equity fund-raising activities in the past twelve months immediately prior to the Latest Practicable Date.

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, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacturing and sales of coal-related chemical products, the generation and supply of electricity and thermal energy and construction services.

POSSIBLE ADJUSTMENTS TO THE OUTSTANDING SHARE OPTIONS UNDER THE SHARE OPTION SCHEMES AND THE CONVERTIBLE BONDS

Pursuant to the terms of the Share Option Scheme and the terms and conditions of the Convertible Bonds, (i) the subscription prices on the exercise of the Share Options and/or number of Shares related to the Share Options under the Share Option Scheme; and/or (ii) the conversion prices of the Convertible Bonds may be adjusted in accordance with the Share Option Scheme and the terms and conditions of the Convertible Bonds, respectively, upon the Rights Issue becoming unconditional.

Adjustment mechanism

Pursuant to the terms of the Share Option Scheme, the Company shall instruct an auditor or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made, provided that (a) any adjustments shall give a grantee the same proportion of the issued share capital of the Company to which he was entitled prior to such adjustment; (b) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (c) no such adjustment shall be made to the advantage of the grantees or prospective grantees (including but not limited to, adjustments which would increase the Intrinsic Value of the Share Options); and (d) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

Pursuant to the terms and conditions of the Convertible Bonds, the conversion prices of the Convertible Bonds may be adjusted by multiplying the conversion price in force immediately before the date of the Announcement by the amount equal to (i) the sum of: (a) the number of Shares in issue immediately before the date of the Announcement; and (b) the aggregate number of Rights Shares multiplied by the Subscription Price, and divided by the greater of either the closing price per Share quoted on the Stock Exchange on the Last Trading Day or the conversion price in force immediately before the date of the Announcement; divided by, (ii) the sum of (a) the number of Shares in issue immediately before the date of the Announcement; and (b) the aggregate number of Rights Shares.

The Company will notify the holders of the Share Options and the Convertible Bonds and the Shareholders by way of announcement (as and when appropriate) regarding adjustments to be made (if any) pursuant to the terms of the Share Option Schemes and the Convertible Bonds and

LETTER FROM THE BOARD

such adjustment will be certified by an independent financial adviser or auditors of the Company (as the case may be).

LISTING RULES IMPLICATIONS

As the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to approval by the Independent Shareholders at the SGM by poll in accordance with the requirements of Rule 7.19A(1) of the Listing Rules and any Controlling Shareholder and their respective associates or where there is no Controlling Shareholder, the Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Rights Issue.

As at the Latest Practicable Date, the Company does not have any Controlling Shareholder. Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Liu Yangyang, as the executive Directors or non-executive Director (as the case may be), who holds 2,860,000, 2,440,000 and 3,320,000 Existing Shares, respectively, will abstain from voting in favour of the resolution approving the Rights Issue at the SGM. Save as disclosed, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors or their respective associates are interested in any Existing Share.

The Rights Issue (whether on its own or when aggregated with the 2021 Rights Issue) does not result in a theoretical dilution effect of 25% or more. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

GENERAL

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve, among other things, the Capital Reorganisation and the Rights Issue.

A notice convening the SGM to be held at 22/F, Euro Trade Centre, 13–14 Connaught Road Central, Central, Hong Kong, at 4:30 p.m. (or immediately after the conclusion of the annual general meeting convened on the same day and at the same place) on Wednesday, 14 December 2022 is set out on pages 111 to 114 of this circular. A form of proxy for use at the SGM or any adjournment thereof is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof (as the case may be). Completion and return of a proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish and in such event, the form of proxy shall be deemed to be revoked.

LETTER FROM THE BOARD

Shareholders and potential investors of the Company should note that the Rights Issue is upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Accordingly, the Rights Issue may or may not proceed.

Shareholders should note that the Shares are expected to be dealt in on an ex-right basis from Monday, 19 December 2022. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 4 January 2023 to Wednesday, 11 January 2023 (both dates inclusive).

Any Shareholder or other person contemplating selling or purchasing the Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled will bear the risk that the Rights Issue may not become unconditional and may not proceed. Shareholders and the public are reminded to exercise caution when dealings in the Shares and any dealings in the Rights Shares in their nil-paid form from Wednesday, 4 January 2023 to Wednesday, 11 January 2023 (both dates inclusive) will accordingly bear the risk that the Right Issue cannot become unconditional and may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.

RECOMMENDATIONS

The Independent Board Committee, which comprises all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the SGM. Grand Moore Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Your attention is drawn to the letter from the Independent Board Committee set out on page 52 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from the Independent Financial Adviser set out on pages 53 to 86 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) consider that the terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

By Order of the Board
China Zenith Chemical Group Limited
Chan Yuk Foebe
Chairman and Executive Director



China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

21 November 2022

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
FIVE (5) RIGHTS SHARES FOR EVERY TWO (2)
ADJUSTED SHARES HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 21 November 2022 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned.

Grand Moore Capital Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect. Having taken into account the terms of the Rights Issue, and the advice from Grand Moore Capital Limited, we are of the opinion that the terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Rights Issue and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee
China Zenith Chemical Group Limited

Mr. Ma Wing Yun Bryan

Mr. Tam Ching Ho

Mr. Hau Chi Kit

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue and the transactions contemplated thereunder for the purpose of incorporation into this Circular.



Unit 1401, 14/F, Lippo Sun Plaza, 28 Canton Road,
Tsim Sha Tsui, Kowloon, Hong Kong

21 November 2022

*To the Independent Board Committee and
the Independent Shareholders of
China Zenith Chemical Group Limited*

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5) RIGHTS SHARES FOR EVERY TWO (2) ADJUSTED SHARES HELD ON RECORD DATE

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to (i) advise the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Rights Issue are fair and reasonable as far as the Independent Shareholders are concerned; (ii) give our recommendation as to whether the Rights Issue is in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the SGM. Details of the Rights Issue are set out in the section headed “Letter from the Board” (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 21 November 2022, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless the context requires otherwise.

As stated in the Letter from the Board, the Board proposes to implement the Capital Reorganisation involving (i) the Share Consolidation whereby every twenty (20) Existing Shares will be consolidated into one (1) Consolidated Share; (ii) the Capital Reduction whereby the issued share capital of the Company will be reduced by (a) rounding down the total number by Consolidated Shares in the issued share capital of the Company to the nearest whole number of cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid up capital of the Company to the extent of HK\$1.9 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK\$2.0 to HK\$0.1; (iii) the Share Sub-division whereby each of the authorised but unissued Consolidated Shares will be divided into twenty (20) Adjusted Shares of HK\$0.1 each; (iv) the Share Premium Reduction whereby the entire amount standing to the credit of the Share Premium Account will be reduced to nil; and (v) the transfer of all the credits arising from

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company within the meaning of the Companies Act which will be applied to reduce the accumulated losses of the Company or be applied by the Board in any other manner in accordance with the bye-laws of the Company and all applicable laws of Bermuda from time to time without further authorization from the Shareholders.

As at the Latest Practicable Date, the total authorised share capital of the Company is HK\$500,000,000 divided into 5,000,000,000 Existing Shares of HK\$0.1 each, of which 3,014,560,978 Existing Shares have been issued and fully paid or credited as fully paid. Immediately following the Capital Reorganisation, 5,000,000,000 Existing Shares of HK\$0.1 each will become 5,000,000,000 Adjusted Shares of HK\$0.1 each, of which 150,728,048 Adjusted Shares will be in issue and the aggregate nominal value of the issued share capital of the Company will become HK\$15,072,804.8 (assuming that no further Existing Shares are issued or repurchased or surrendered from the Latest Practicable Date until the Effective Date). A credit of HK\$286,383,291.2 will arise as a result of the Capital Reduction becoming effective after the Capital Reorganisation. As at the Latest Practicable Date, the Company has a credit balance of approximately HK\$172,006,081 standing in the Share Premium Account. The credit arising from the Capital Reduction and the Share Premium Reduction will be transferred to the contributed surplus account of the Company within the meaning of the Companies Act and be applied towards reducing the accumulated losses of the Company as at the effective date of the Capital Reduction and Share Premium Reduction.

Subject to the Capital Reorganisation becoming effective, the Board proposes to implement the Rights Issue on the basis of five (5) Rights Shares for every two (2) Adjusted Shares held by the Qualifying Shareholders on the Record Date at the Subscription Price of HK\$0.2 per Rights Share, to raise gross proceeds up to approximately HK\$79.5 million before expenses by way of a rights issue of up to 397,355,377 Rights Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date). The net proceeds from the Rights Issue (after deducting the estimated expenses) are estimated to be not more than approximately HK\$77.6 million.

As the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to approval by the Independent Shareholders at the SGM by poll in accordance with the requirements of Rule 7.19A(1) of the Listing Rules and any Controlling Shareholder and the respective associates or where there is no Controlling Shareholder, the Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Rights Issue.

As at the Latest Practicable Date, the Company does not have any Controlling Shareholder. Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Liu Yangyang, as the executive Directors or non-executive Director (as the case may be), who holds 2,860,000, 2,440,000 and 3,320,000 Existing Shares, respectively, will abstain from voting in favour of the resolution approving the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Rights Issue at the SGM. Save as disclosed, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors or their respective associates are interested in any Existing Share.

The Rights Issue (whether on its own or when aggregated with the 2021 Rights Issue) does not result in a theoretical dilution effect of 25% or more. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the SGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue. In the last two years, we have not acted in any financial adviser role to the Company.

With regards to our independence from the Company, it is noted that (i) apart from the normal professional fees paid to us in relation to the current appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company or other parties that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid/to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Rights Issue pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's annual report for the financial year ended 30 June 2022 (the "**2022 Annual Report**"); (iii) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Directors and the Management; and (v) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Rights Issue, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Rights Issue. The Company has been separately advised by its own professional advisers with respect to the Rights Issue and the preparation of the Circular (other than this letter).

We have assumed that the Rights Issue will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Rights Issue, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Rights Issue. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Rights Issue, we have taken into account the following principal factors and reasons:

1. Background information of the parties

1.1 Background information and financial overview of the Group

As stated in the Letter from the Board, the Group is principally engaged in the manufacturing and sales of coal-related chemical products, the generation and supply of electricity and thermal energy and construction services. Certain summary financial information of the Group as extracted from the 2022 Annual Report for the two years ended 30 June 2021 and 2022 (“FY2021” and “FY2022” respectively) is set out below:

	For the year ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(audited)	(audited)
Revenue	369,628	229,021
Gross (loss)/profit	(25,720)	49,894
(Loss) attributable to owners of the Company	(1,064,206)	(450,353)

The Group’s consolidated revenue increased from approximately HK\$229.0 million for FY2021 to approximately HK\$369.6 million for FY2022, representing an increase of approximately HK\$140.6 million or 61.4%. As per the 2022 Annual Report, the increase of revenue was primarily attributable to the increase in revenue of the calcium carbide segment. The Group turned around from a gross profit of approximately HK\$49.9 million in FY2021 to a gross loss of approximately HK\$25.7 million FY2022. As stated in the 2022 Annual Report, the Group’s gross loss is mainly attributable to escalating coal price during FY2022 which has resulted in a gross loss of approximately HK\$58 million in the heat and power segment. The Group recorded consolidated loss attributable to owners of the Company of approximately HK\$1,064.2 million for FY2022, representing an increase of approximately HK\$613.8 million or 136.3%, as compared to the consolidated loss attributable to owners of the Company of approximately HK\$450.4 million for FY2021. Such increase in consolidated loss attributable to owners of the Company was mainly attributable to the combined effects of (i) the turnaround from gross profit to gross loss in FY2022 as discussed above; (ii) an impairment of property, plant and equipment in the amount of approximately HK\$646.2 million during the FY2022 which was absent from FY2021; and (iii) a

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

significant increase in impairment of right-of-use assets, partly offset by (i) a significant increase in other income and other gains or losses in FY2022; and (ii) significant decrease in other operating expenses.

	As at 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)
Bank and cash balances	12,874	46,775
Current assets	149,983	325,533
Net current (liabilities)	(966,539)	(958,412)
Total assets	1,238,247	2,071,353
Current liabilities	1,116,522	1,283,945
Total liabilities	2,063,097	1,982,644
Net assets/(liabilities) attributable to owners of the Company	(873,168)	29,564

The Group's bank and cash balances amounted to approximately HK\$12.9 million as at 30 June 2022, representing a decrease of approximately HK\$33.9 million or 72.4%, as compared to that of approximately HK\$46.8 million as at 30 June 2021. The aforementioned bank and cash balances as at 30 June 2022 represents approximately 16.6% of the estimated net proceeds of the Rights Issue of approximately HK\$77.6 million and is therefore grossly insufficient for the purpose of the Rights Issue's use of proceeds. The Group recorded net current liabilities of approximately HK\$966.5 million as at 30 June 2022, representing an increase of approximately HK\$8.1 million or 0.8% as compared to that of approximately HK\$958.4 million as at 30 June 2021. Such increase was mainly attributable to the combined effects from a decrease in current assets of approximately 53.9% and a decrease in current liabilities of approximately 13.0% as at 30 June 2022. We note from the 2022 Annual Report that the decrease in current assets is mainly attributable to the substantial decreases in prepayments, deposits and other receivables, amount due from a deconsolidated subsidiary and bank and cash balances. Meanwhile, the decrease in current liabilities is mainly due to the combined effects of increase in other payables and accruals, increase in other loans, substantial decrease in bonds payable (current portion) and increase in convertible bonds (current portion). The deterioration in liquidity and solvency gives rise to a decrease in current ratio from approximately 0.25 times as at 30 June 2021 to approximately 0.13 times as at 30 June 2022.

The Group's total liabilities increased by approximately HK\$80.5 million, or 4.1%, from approximately HK\$1,982.6 million as at 30 June 2021 to approximately HK\$2,063.1 million as at 30 June 2022. Such increase was mainly attributable to the combined effects of the aforementioned factors related to the decrease in current liabilities together with the increase in bonds payable (non-current portion). As at 30

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

June 2022, bonds payable of the Group amounted to approximately HK\$1,066.2 million, of which the bonds payable (non-current portion) amounted to approximately HK\$916.8 million and bonds payable (current portion) amounted to approximately HK\$149.4 million. Apart from the above, the Group also had other debts including bank loans (non-current portion) of approximately HK\$13.3 million, convertible bonds (non-current portion) of approximately HK\$16.5 million, other loans of approximately HK\$120.4 million, bank loans (current portion) of approximately HK\$9.1 million and convertible bonds (current portion) of approximately HK\$29.9 million as at 30 June 2022.

The Group recorded net liabilities attributable to owners of the Company of approximately HK\$873.2 million as at 30 June 2022, which represents a turnaround from net assets attributable to owners of the Company of approximately HK\$29.6 million as at 30 June 2021. This was mainly attributable to significant decreases in the Group's property, plant and equipment and prepayments, right-of-use assets, prepayments, deposits and other receivables, amount due from a deconsolidated subsidiary and bank and cash balances as at 30 June 2022.

1.2 Information on the Underwriter

The Underwriter, Koala Securities Limited, is a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO and its ordinary course of business includes underwriting of securities.

2. Reasons for the proposed Rights Issue and use of proceeds

It is stated in the Letter from the Board that as disclosed in the interim report of the Company for the six months ended 31 December 2021, the Company has issued bonds in 2013 and the aggregate principal amount of the bonds outstanding was HK\$276 million with the maturity date on 11 September 2021. A settlement has been reached between the Company and bondholders to extend the maturity date of the bonds outstanding to 10 September 2025, and the bonds shall bear interest at the rate of 7.5% per annum from 11 September 2021 to 10 September 2025. The interest of the bonds shall accrue and be paid, together with the principal amount of the bonds, on the new maturity date, being 10 September 2025.

As at 31 December 2021, the bonds payable within one year amounted to approximately HK\$212,939,000 and these bonds payable are unsecured and interest bearing at coupon rates of 3% to 12%.

The Company is in the process of negotiating for a settlement of a bond payable to several bondholders in the amount of HK\$100 million. In the event that a settlement is reached between the Company and the bondholders, the Company expects the relevant bond payable in the amount of HK\$100 million to be deferred or discounted.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors currently intend to use the net proceeds of approximately HK\$77.6 million as follows:

- approximately 87.11% of the net proceeds (approximately HK\$67.6 million) will be used for repayment of the Company's indebtedness (i.e. the partial repayment of the bonds of the Company of approximately HK\$186.1 million repayable within one year and for more details, please refer to the subparagraph headed "Bonds" in the statement of indebtedness set out in Appendix I to the Circular) and interest expenses (excluding those of Mudanjiang BD Power); and
- approximately 12.89% of the net proceeds (approximately HK\$10 million) will be used for general working capital of the Group.

In the event that there is an under-subscription of the Rights Issue, the net proceeds of the Rights Issue will be utilised in proportion to the above uses.

As disclosed in the announcement of unaudited results for FY2022 of the Company dated 29 September 2022, the operation of Mudanjiang BD Power was temporarily taken-over by Mudanjiang Authority of Housing and Urban-Rural Development and upon the cease of control over Mudanjiang BD Power, Mudanjiang BD Power should be deemed as deconsolidated from the consolidated financial statements of the Group and be classified as a discontinued operation as from 26 August 2022. None of the net proceeds of the Rights Issue will be utilized for repayment of the indebtedness of Mudanjiang BD Power.

Apart from the Rights Issue, the Directors have considered other debt/equity fund-raising alternatives such as bank borrowings, placing or an open offer. The Directors noted that bank borrowings will carry interest costs and may require the provision of security and creditors will rank before the Shareholders, and placings will dilute the interests of the Shareholders without giving them the opportunity to take part in the exercise. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market. The Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Company.

Having considered the abovementioned alternatives, the Directors consider raising funds by way of the Rights Issue is more attractive in the current market condition and the Rights Issue will enable the Company to strengthen its working capital base and enhance its financial position, while at the same time, allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company, and thus, in the interests of the Company and the Shareholders as a whole.

Based on the above, the Board considers that raising capital through the Rights Issue is in the interests of the Company and the Shareholders as a whole. In addition, having considered the capital needs of the Group, the terms of the Rights Issue and the Subscription Price, the Board also considers that it is in the interests of the Company to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

proceed with the Rights Issue. **However, those qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholder(s), if any, should note that their shareholdings will be diluted.**

The estimated expenses in relation to the Rights Issue, including financial, legal and other professional expenses, of approximately HK\$1.9 million, will be borne by the Company. Assuming (1) full acceptance by the Qualifying Shareholders; (2) new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds; and (3) no other change in the share capital of the Company on or before the Record Date, the estimated net proceeds of the Rights Issue will be not more than approximately HK\$77.6 million.

Based on our discussion with the Management, the main objectives of the Rights Issue are (i) securing sufficient financial resources to equip the Group for settlement negotiations on outstanding bonds with “haircut” on outstanding principal; and (ii) repayment of such outstanding principal after “haircut” and alleviate the Group’s financial burden arising out of ongoing interests expenses. Based on information obtained from the Management, we have performed an estimation on the possible benefits on the repayment of six overdue bonds (the “**Bonds Under Negotiation**”) of the Group with aggregate principal amount of approximately HK\$36.9 million which the Group is already in advanced stage of settlement negotiations with the relevant creditors involving “haircut” on the outstanding principal. In the event that the Group can indeed successfully conclude a “haircut” on the Bonds Under Negotiation after completion of the Rights Issue, the Group is expected to be able to save approximately HK\$12.5 million (the “**Estimated Savings**”) in repayment of revised aggregate principal of approximately HK\$24.4 million after “haircut”. We are given to understand that the relevant creditors of the Bonds Under Negotiation have already agreed in principle the aforementioned settlement terms but the Group is unable to enter into any definitive settlement agreement given that it currently does not have the financial means to proceed with the above settlement proposal which is a prerequisite as required by the relevant creditors. Accordingly, the completion of the Rights Issue with its cash inflow is crucial in concluding the settlement of the Bonds Under Negotiation such that the Group can indeed benefit from the Estimated Savings. Meanwhile, the Bonds Under Negotiation generally carry interest at rates of 6% to 7.5% per annum before settlement negotiation. Accordingly, the annual interest expenses on the Bonds Under Negotiation before settlement negotiation is approximately HK\$2.4 million which the Group can also save should it successfully procure settlement based on currently negotiated terms after completion of the Rights Issue. It is noted the aforementioned revised principal of approximately HK\$24.4 million after “haircut” represents approximately 36.1% of the estimated net proceeds of the Rights Issue earmarked for the repayment of the Company’s indebtedness and interests expenses of approximately HK\$67.6 million. In that connection, we further understand from the Management that as at the Latest Practicable Date, the Group also has approximately HK\$65 million in overdue bonds (the “**Other Bonds Under Negotiation**”) which the Group is also having settlement negotiations with relevant creditors with regards to “haircut” on outstanding principal. The Group currently does not

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

have the financial means to support negotiation on meaningful settlement from such creditors' perspective so no substantial progress has been made with the Other Bonds Under Negotiation. However, the Management is confident that it will be able to procure favorable outcome from such negotiations should the Rights Issue complete and the Group has obtained the necessary funding for repayment of principal amount of the Other Bonds Under Negotiation. Based on the above and the Group's cash position as discussed in section 1 of this letter, we consider that the Group has imminent need to proceed with the Rights Issue so as to (i) proceed with the settlement of Bonds Under Negotiation and enjoy the savings as discussed above; and (ii) secure favourable outcome in respect of lessening its financial burden on repayment by way of negotiating "haircut" on the outstanding principal of the Other Bonds Under Negotiation.

3. Other financing alternatives available to the Group

With reference to section 2 of this letter, the Directors have considered other debt/equity fund-raising alternatives such as bank borrowings, placing or an open offer. In that connection, we have further discussed the other financing alternatives with the Management and noted the followings:

With respect to placement/subscription of new Shares, it is a common market practice to conduct the placement/subscription under a general mandate to issue new Shares which would effectively limit the size of such fund-raising while resulting in immediate dilution to the existing Shareholders without offering an option to existing Shareholders to maintain their respective existing shareholding interests in the Company. Given the Company's market capitalization of approximately HK\$30.1 million as at the Latest Practicable Date, it is expected that such placement/subscription of new Shares would not allow the Group to raise any meaningful amount of proceeds with reference to the proposed use of proceeds of the Rights Issue as mentioned in section 2 of this letter. On the contrary, the Rights Issue offers existing Shareholders an equal opportunity to maintain their proportional interests in the Company at a Subscription Price which is lower than historical market price, or to obtain additional shareholding of the Company by way of application for the Excess Rights Shares.

With respect to an open offer, it would also allow the Shareholders to maintain their respective shareholding interests in the Company, nevertheless, it generally does not facilitate a trading arrangement of nil-paid rights on the Stock Exchange where Qualifying Shareholders can still realise a gain on the disposal of the nil-paid rights without participation in the open offer.

As to issue of convertible debt instrument or raising additional debt/bank financing, we note that the Group is already in significant net liabilities attributable to owners of the Company and net current liabilities positions of approximately HK\$873.2 million and HK\$966.5 million respectively as at 30 June 2022 as discussed in section 1.1 of this letter. Furthermore, the Group suffered massive loss attributable to owners of the Company of approximately HK\$1,064.2 million during the year ended 30 June 2022. Under such

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

circumstances, we consider that it would be extremely difficult, if not impossible, for the Group to procure new creditors/lenders to raise any further debts, convertible or otherwise. In any event, issue of convertible debt instrument or raising additional debt/bank financing will likely result in interest expenses over the entire term of such debt which may diminish or even defeat the benefits of the main objective of the Rights Issue which is to lower the Company's indebtedness and interests expenses as discussed in section 2 of this letter.

Based on the above, we concur with the Management that the Rights Issue is currently a better option than the other equity, convertible or debt financing alternatives given that (i) issue of convertible bonds or raising additional debts to repay existing debts would not achieve the goal of the Rights Issue which is to decrease the debts of the Group and the associated interests expenses; (ii) raising additional debts is unlikely to be successful given the Company's financial position and circumstances; (iii) other equity financing alternatives are unlikely to generate the required level of funding for the Company; and (iv) the Rights Issue would allow the Company to strengthen its balance sheet by raising long term equity fund without the need for payment of interest and repayment of principal at maturity.

4. The proposed Rights Issue

4.1 Issue statistics

Basis of the Rights Issue:	Five (5) Rights Shares for every two (2) Adjusted Shares held on the Record Date
Subscription Price:	HK\$0.2 per Rights Share
Number of the Adjusted Shares in issue upon the Capital Reorganisation becoming effective (assuming no further issue of Shares from the Latest Practicable Date up to the Record Date):	150,728,048 Adjusted Shares
Number of the Adjusted Shares which may be issued upon full exercise of the subscription rights attaching to the outstanding Share Options:	Up to 4,956,777 Adjusted Shares (after the Capital Reorganisation)
Number of the Adjusted Shares which may be issued upon full exercise of the conversion rights attaching to the Convertible Bonds:	Up to 3,257,328 Adjusted Shares (after the Capital Reorganisation)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Number of Rights Shares:	Up to 397,355,377 Rights Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Aggregate nominal value of the Rights Shares:	Up to HK\$39,735,537.7 (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Maximum funds to be raised before expenses:	Up to approximately HK\$79.5 million (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Number of Rights Shares undertaken to be taken up:	Mr. Chan has undertaken to take up an aggregate of 64,742,190 Rights Shares under his assured entitlement. As at the Latest Practicable Date, Mr. Chan holds 25,896,876 Adjusted Shares (after the Capital Reorganisation), representing approximately 17.18% of the entire issued share capital of the Company. The Irrevocable Undertaking is subject to a cap and the maximum number of Rights Shares together with the Adjusted Shares already held by Mr. Chan shall not be more than 29.99% of the total enlarged issued share capital of the Company at completion of the Rights Issue so as not to trigger any obligation for a general offer under the Takeovers Code

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares of 312,077,930 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date) or 332,613,187 Rights Shares being the maximum total number of Rights Shares issuable (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), excluding the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking

Right of excess applications: Qualifying Shareholders may apply for Rights Shares in excess of their provisional entitlements

Total number of Shares in issue as enlarged by the Rights Shares upon completion of the Rights Issue: 527,548,168 Adjusted Shares (assuming no change in the number of Shares in issue on or before the Record Date)

556,297,528 Adjusted Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)

Underwriter: Koala Securities Limited

Assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date, 376,820,120 Rights Shares proposed to be allotted and issued pursuant to the terms of the Rights Issue represents approximately 250% of the Company's entire issued share capital as

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

at the Latest Practicable Date (assuming the Capital Reorganisation has taken effect) and will represent approximately 71.43% of the Company's entire issued share capital as enlarged by the issue of the Rights Shares immediately after the completion of the Rights Issue.

Save for the Share Options and the Convertible Bonds, the Company has no outstanding derivatives, convertible securities, options, warrants or other similar securities in issue which would otherwise confer any right to subscribe for, convert or exchange into Shares. The Company has no intention to issue or grant any Shares, convertible securities and/or options on or before the Record Date.

The Rights Issue is only underwritten on a best effort basis and is not on a fully unwritten basis. Pursuant to the Company's constitutional documents and the Companies Act, there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfilment or satisfaction of the conditions precedent of the Rights Issue, the Rights Issue shall proceed regardless of the conditions of its level of acceptances, and up to 64,742,190 Rights Shares are committed to be subscribed pursuant to the Irrevocable Undertaking subject, however, to any Scaling-down vis-à-vis the MGO Obligation.

In the event of under-subscription, any Rights Shares not taken up by the Qualifying Shareholders whether under PAL(s) or EAF(s), or transferees of nil-paid Rights Shares, are not subscribed by subscribers procured by the Underwriter will not be issued, and hence, the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

4.2 The Subscription Price

The Subscription Price of HK\$0.20 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a renounce of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

- (i) the equivalence of the theoretical closing price of HK\$0.20 per Adjusted Share with reference to the closing price of HK\$0.010 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation;
- (ii) a discount of approximately 28.57% to the Last Closing Price;
- (iii) a discount of approximately 25.93% to the theoretical average closing price of approximately HK\$0.27 per Adjusted Share with reference to the average

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

closing price per Share as quoted on the Stock Exchange for the five (5) consecutive trading days ending on and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

- (iv) a discount of approximately 25.93% to the theoretical average closing price of approximately HK\$0.27 per Adjusted Share with reference to the average closing price per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days ending on and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (v) a discount of approximately 33.33% to the theoretical average of the closing prices of approximately HK\$0.30 per Adjusted Share with reference to the average closing price per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (vi) a discount of approximately 9.10% to the theoretical ex-right price of approximately HK\$0.22 per Adjusted Share, based on the theoretical ex-right price of approximately HK\$0.011 per Share and the Last Closing Price;
- (vii) a premium over the audited net liabilities value per Adjusted Share of approximately HK\$5.47 (based on the latest published consolidated net liabilities value of the Group of approximately HK\$824,850,000 as at 30 June 2022 as disclosed in the annual report of the Company for the year ended 30 June 2022 and 150,728,048 Adjusted Shares based on 3,014,560,978 Shares in issue as at the Latest Practicable Date for the effect of the Capital Reorganisation);
- (viii) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 21.43%, represented by the theoretical diluted price of approximately HK\$0.22 per Adjusted Share to the benchmarked price of approximately HK\$0.28 per Adjusted 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\$0.014 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the date of the Announcement of HK\$0.0136 per Share); and
- (ix) a cumulative theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) in aggregation with the 2021 Rights Issue represented by a discount of approximately 21.80%, represented by the cumulative theoretical diluted price of approximately HK\$2.08 per Adjusted Share to the theoretical benchmarked price of HK\$2.66 per Adjusted Share in respect of the 2021 Rights Issue (after taking into account the effect of the Capital

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Reorganisation) (as defined under Rule 7.27B of the Listing Rules, taking into account the benchmarked price of the 2021 Rights Issue, being HK\$0.133 per Share).

The par value of each Rights Share is HK\$0.10.

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK\$0.195.

The Subscription Price and the subscription ratio were determined by the Directors with reference to (i) the market price of the Shares prior to and including the Last Trading Day; (ii) the prevailing market conditions; and (iii) the fund-raising size intended by the Company after taking into consideration of the par value per Share of the Company. According to the relevant Bermuda laws, the Company shall not issue shares at a price below its par value.

It is a common market practice that, in order to enhance the attractiveness of rights issue to existing shareholders, the subscription price would be set at a discount to the prevailing market prices of the relevant shares. The Company considers that the Subscription Price provides a more attractive opportunity to encourage the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholding interests in the Company and is therefore fair and reasonable.

The Directors consider 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.

4.3 Underwriting arrangement and undertaking

4.3.1 The Shareholders' undertaking

It is stated in the Letter from the Board that as at the Latest Practicable Date, Mr. Chan, a substantial Shareholder of the Company, directly holds 25,896,876 Adjusted Shares (after the Capital Reorganisation), representing approximately 17.18% of the issued share capital of the Company.

On 18 October 2022, the Company received the Irrevocable Undertaking from Mr. Chan, pursuant to which Mr. Chan has irrevocably undertaken to the Company and the underwriter, among other things, to:

- (i) subscribe for 64,742,190 Rights Shares, which will be provisionally allotted to Mr. Chan nil-paid in respect of the 25,896,876 Adjusted Shares (after the Capital Reorganisation) legally and beneficially owned by Mr. Chan, pursuant to the terms of the Rights Issue

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Documents provided that the total number of the Rights Shares to be subscribed will be scaled down (if necessary) to the extent that his percentage shareholding in the Company will not be more than 29.99% immediately after completion of the Rights Issue; and

- (ii) ensure that the 25,896,876 Adjusted Shares (after the Capital Reorganisation) currently legally and beneficially owned by Mr. Chan will remain legally and beneficially owned by Mr. Chan on the Record Date.

As at the Latest Practicable Date, Mr. Chan holds 25,896,876 Adjusted Shares (after the Capital Reorganisation), representing approximately 17.18% of the entire issued share capital of the Company. The Irrevocable Undertaking is subject to a cap and the maximum number of Rights Shares together with the Shares already held by Mr. Chan shall not be more than 29.99% of the total enlarged issued share capital of the Company at completion of the Rights Issue so as not to trigger any obligation for a general offer under the Takeovers Code.

The Company has not received, as at the Latest Practicable Date, any information or irrevocable undertaking from any other substantial Shareholder of the Company of any intention in relation to the Rights Shares to be provisionally allotted to that Shareholder under the Rights Issue.

4.3.2 The Underwriting Agreement

The principal terms of the Underwriting Agreement as extracted from the Letter from the Board are set out below:

Date:	18 October 2022 (after trading hours)
Issuer:	The Company
Underwriter:	Koala Securities Limited

The Underwriter is a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO and its ordinary course of business includes underwriting of securities. The Underwriter has complied with Rule 7.19(1)(a) of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Number of Underwritten Shares: 312,077,930 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date) or 332,613,187 Rights Shares being the maximum total number of Rights Shares issuable (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), excluding the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking, underwritten by the Underwriter on a best effort basis pursuant to the terms and conditions of the Underwriting Agreement

Underwriting Commission: 1% of the aggregate Subscription Price in respect of the actual number of Underwritten Shares procured by the Underwriter for subscription pursuant to the Underwriting Agreement

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter and its ultimate beneficial owners are independent of the Company and its connected persons. As at the date of the Underwriting Agreement, the Underwriter is not interested in any Shares.

The said commission rate was determined after arm's length negotiations between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. The Directors (including the independent non-executive Directors) consider that the terms of the Underwriting Agreement (including the commission rate) are fair and reasonable so far as the Company and the Shareholders are concerned.

Save for the Underwriting Agreement, the Company has not entered into any agreement, arrangement, understanding or undertaking in regard of the Rights Issue with the Underwriter or any of its connected persons and their respective associate.

In our review of the relevant clause of the Underwriting Agreement and as confirmed by the Management, it only provides for the 1% underwriting

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

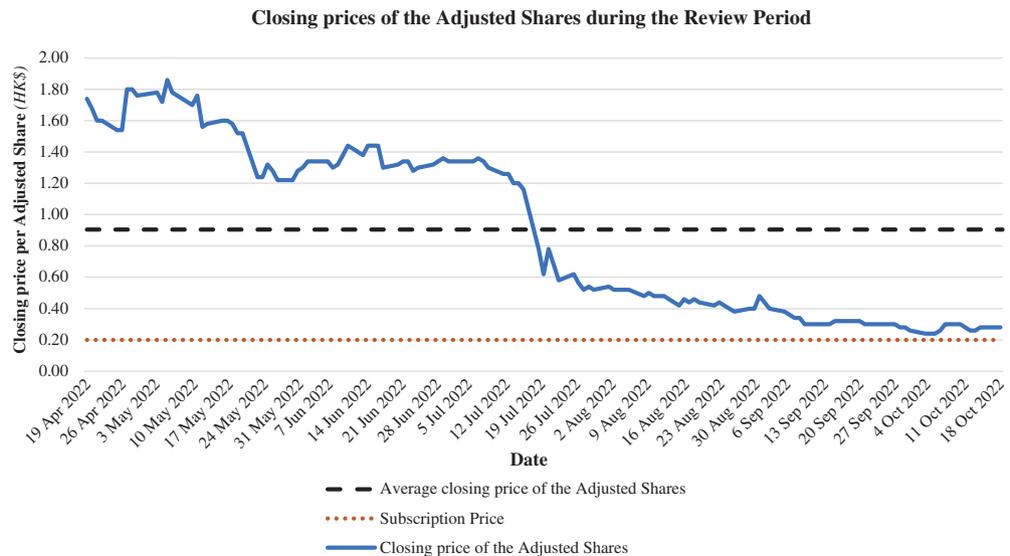
commission on the aggregate Subscription Price in respect of the actual number of Underwritten Shares procured by the Underwriter for subscription pursuant to the Underwriting Agreement. Accordingly, there is no minimum underwriting commission in connection with the Underwriting Agreement.

5. Historical price and trading volume of the Adjusted Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have taken into account (i) the daily closing prices of the Adjusted Shares as quoted on the Stock Exchange during the 6 months ended the date of the Announcement, i.e. 18 October 2022 (the “**Review Period**”); and (ii) the average daily trading volumes of the Adjusted Shares for each of the months during the Review Period.

In relation to the 6 months Review Period adopted in our analysis, we note that (i) it represents a reasonable period to provide a general overview of the recent price performance of the Adjusted Shares which has fully reflected relevant information of the Group’s performance; (ii) a shorter period (e.g. 3 months) may not sufficiently illustrate a meaningful historical trend for a proper assessment; and (iii) a longer period (e.g. 12 months) may have been too distant in time making such historical trend less relevant within the context of the Rights Issue and with reference to the dynamic financial markets. Accordingly, we consider that the sampling period of 6 months for the Review Period is appropriate when conducting an analysis on the historical closing prices of the Adjusted Shares, trading volumes and the Subscription Price.

5.1 Closing price movement of the Adjusted Share during the Review Period



Source: website of the Stock Exchange

As illustrated in the chart above, the closing prices of the Adjusted Shares exhibited a generally downward trend during the Review Period. Starting from

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

HK\$1.74 per Adjusted Share at the beginning of the Review Period on 19 April 2022, the closing price of the Adjusted Shares experienced a period of volatility reaching HK\$1.52 per Adjusted Share on 20 May 2022. Subsequently, the closing price of the Adjusted Shares experienced a somewhat sharp drop to HK\$1.24 per Adjusted Share on 24 May 2022. The Adjusted Shares then experienced a period where they closed within a somewhat narrow band between HK\$1.44 per Adjusted Share on 10, 14, 15 and 16 June 2022 and HK\$1.16 per Adjusted Share on 15 July 2022. The closing price of the Adjusted Shares then experienced a sharp drop reaching HK\$0.62 per Adjusted Share on 19 July 2022 and then went into a phase of gentle downward trend ultimately reaching HK\$0.28 per Adjusted Share on the date of the Announcement on 18 October 2022. In relation to the sharp decrease of the closing price per Adjusted Share from HK\$1.16 per Adjusted Share on 15 July 2022 to HK\$0.62 per Adjusted Share on 19 July 2022, we note that such sharp decline in closing price of the Adjusted Shares was coupled with a marked increase in trading volume on 19 July 2022. We are unable to point out the definitive reason for such fluctuations in our capacity as the Independent Financial Adviser but in any event, we note that the Company had published an announcement dated 18 July 2022 in connection with updates on jointly producing raw materials of electrolyte for lithium batteries of electric vehicles. We have made inquiry to the Management which is also not aware of any other reasons for the aforementioned sharp decline in the closing price of the Adjusted Shares. We have made further inquiry to the Management in relation to the latest development and financial status of the aforementioned project and we are given to understand that there is no material development subsequent to the Company's announcement dated 18 July 2022 as various areas in the Heilongjiang province has seen intermittent outbreaks of COVID-19 pandemic resulting in large-scale lock-down since September 2022 leading to lack of interest in cooperating investors in the joint development of the project.

During the Review Period, the closing prices of the Adjusted Shares ranged from HK\$0.24 per Adjusted Share (recorded on 3 and 5 October 2022) to HK\$1.86 per Adjusted Share (recorded on 5 May 2022). The Subscription Price of HK\$0.2 per Rights Share, is below the low end of the abovementioned range and represents a discount of approximately 16.7% and discount of approximately 89.2% to the lowest and highest closing price of the Adjusted Shares during the Review Period respectively. In relation to the Rights Issue being conducted when the Shares closed near to its lowest point during the Review Period, we have inquired the Management and understand that the Rights Issue is proposed with reference to the Group's imminent funding needs in relation to the Bonds Under Negotiation and Other Bonds Under Negotiation as discussed in section 2 of this letter. In particular, we are given to understand that the Company procured the agreement in principle from the relevant creditors of the Bonds Under Negotiation in the August to October 2022 timeframe. After having procured sufficient positive feedback from these creditors, the Group concluded that timing was right to launch the Rights Issue so as to capture the benefits arising out of the Estimated Savings. Accordingly, the Rights Issue was launched which coincided with the Shares closing at its lowest point during the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Review Period. Given that the main objective of the Group was to take the necessary measures to deal with the Bonds Under Negotiation and Other Bonds Under Negotiation in a timely manner before such an opportunity fades away, we consider that it is in the interest of the Company and the Shareholders to proceed with the Rights Issue at this juncture.

5.2 Average daily trading volume for each month during the Review Period

The table below sets out the average daily trading volume of the Adjusted Shares for each month during the Review Period.

Month	Number of trading days	Average daily trading volume of the Adjusted Shares during the month/period <i>(Note 1)</i> (approximate)	Average daily trading volume of the Adjusted Shares during the month/period to the total number of issued Shares <i>(Note 2)</i> (approximate)
2022			
April (from 19 April 2022)	9	335,925	0.22%
May	20	1,434,736	0.95%
June	21	1,260,745	0.84%
July	20	3,841,403	2.55%
August	23	2,160,981	1.43%
September	21	1,848,234	1.23%
October (up to the date of the Announcement)	11	819,907	0.54%

Source: website of the Stock Exchange

Notes:

1. The average daily trading volumes are calculated by dividing the total trading volume of the Adjusted Shares for the month/period by the number of trading days during the month/period.
2. As at the Latest Practicable Date, the total number of issued Adjusted Shares is 150,728,048.

During the Review Period, the average daily trading volume of the Adjusted Shares in each month ranged from a low of approximately 336,000 Adjusted Shares in April 2022 to a high of approximately 3,841,000 Adjusted Shares in July 2022,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

representing approximately 0.22% and 2.55% to the total number of issued Adjusted Shares as at the Latest Practicable Date.

5.3 Our observations

According to the Management, the Company intends to offer a discount to the Qualifying Shareholders so that the Qualifying Shareholders have a fair opportunity to participate in the potential growth of the Company while maintaining their respective pro rata shareholding interests in the Company by subscribing to the Rights Shares at a lower than historical prevailing price, or to obtain additional shareholding of the Company by way of the Excess Rights Shares. Given the critical financial position the Group is experiencing as discussed in section 1 to this letter, we concur with the Management that a reasonable amount of pricing discount may increase the overall appeal or attractiveness of the Rights Issue to the Qualifying Shareholders and the Underwriter. Accordingly, we consider that it is reasonable to set the Subscription Price at a discount to the prevailing historical closing prices of the Adjusted Shares in order to attract the Qualifying Shareholders to participate in the Rights Issue, and to maintain their respective shareholding interest in the Company.

6. Comparative analysis on the proposed terms of the Rights Issue

6.1 The Comparables

In order to assess the fairness and reasonableness of the proposed terms of the Rights Issue, we have identified an exhaustive list of 13 companies (the “**Comparable(s)**”) listed on the Main Board and GEM of the Stock Exchange which announced a rights issue or an open offer during three-month period ended on the date of the Announcement, i.e. 18 October 2022.

Although the Comparables include rights issues and open offer in different scale, engaged in different business or have different financial performance and funding needs from the Company, having considered (i) all of the Comparables and the Group are listed on the Stock Exchange; (ii) our analysis is mainly concerned with the principal terms of the rights issues and open offer and we are not aware of any established evidence showing any correlation between scale of the rights issue and its underlying principal terms; (iii) including transactions conducted by the Comparables with different funding needs and business represents a more comprehensive overall market sentiment in our comparable analysis; (iv) given that the only major difference between rights issue and open offer is that open offer lacks the trading of nil-paid rights while all other terms together with its nature and objective (i.e. fund-raising) are comparable with that of a rights issue, the inclusion of a sole open offer case (i.e. Huscoke Holdings Limited (stock code: 704) as one of the Comparables provides a more complete analysis for the consideration of the Independent Shareholders; (v) a 3-month period for the selection of the Comparables has generated a reasonable and meaningful number of samples size of 13 Hong Kong listed issuers to reflect the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

market practice regarding recent rights issue or open offer, whereas if a longer period (e.g. 6 months) is used, that would have generated way too many comparable issues making the analysis less meaningful with a wider range of premium and discount of the relevant subscription prices; and (vi) the Comparables were included without any artificial selection or filtering on our part so the Comparables represent a true and fair view of the recent market trends for similar transactions conducted by other Hong Kong listed issuers, we consider that the Comparables are fair and representative samples.

Based on the above, we are of the view that our comparable analysis based on the above criteria is meaningful for us to form our view regarding the fairness and reasonableness of the Subscription Price. To the best of our knowledge and as far as we are aware of, the Comparables represent an exhaustive list of all relevant companies fitting our search criterion mentioned above, and we consider that such Comparables can provide a reference on the recent rights issues and open offer given the sufficient number of transactions in such period resulting in a reasonable sample size.

It should be noted that all the subject companies constituting the Comparables may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and the circumstances leading to the subject companies to proceed with the rights issues or open offer may also be different from that of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table sets forth the relevant details of the Comparables:

Company name (Stock code)	Rights Issue/Open Offer	Announcement date	Basis of entitlement	Maximum amount of total fund raised <i>HK\$ million</i>	Closing price; Date of announcement	5-day average	10-day average	(Discount)/ premium of subscription price (to)/over the theoretical ex-rights/ entitlement price	Potential maximum dilution of shareholding ¹	Theoretical dilution effect ²	Compensatory Arrangements/ Excess Application (CA/EA)	Fully Underwritten/ Partially Underwritten/ Underwritten on best effort basis/ Placing (FU/ PU/UBE/P)	Underwriting Commission	Placing Commission	Minimum Underwriting/ Placing fee <i>HK\$</i>
Cherish Sunshine International Limited (1094)	Rights Issue	18 October 2022	5 for 8	120	(13.70)%	(17.11)%	(17.65)%	(11.27)%	38.46%	6.58%	CA	FU, P	1.00% ⁵	1.00% ⁵	100,000
Great Wall Terroir Holdings Limited (524)	Rights Issue	13 October 2022	1 for 4	18	(6.30)%	(15.70)%	(14.60)%	(5.10)%	20.00%	3.15%	EA	N ⁶	n/a ⁶	n/a ¹⁰	N
AMCO United Holdings Limited (630)	Rights Issue	11 October 2022	1 for 1	48	(16.70)%	(16.70)%	(16.70)%	(9.10)%	50.00%	8.33%	CA	P ⁶	n/a ⁶	2.50%	N
Endurance RP Limited (575)	Rights Issue	26 September 2022	1 for 1	188	(21.50)%	(25.24)%	(27.98)%	(15.59)%	50.00%	12.62%	CA	PU ⁹ , P	1.00% ⁷	2.00% ¹¹	150,000
Taxy Concepts Holdings Limited (8096)	Rights Issue	23 September 2022	5 for 2	41	(14.30)%	(14.30)%	(16.67)%	(4.50)%	71.43%	10.20%	CA	P ⁶	n/a ⁶	2.50%	N
China International Capital Corporation Limited (3908)	Rights Issue	13 September 2022	3 for 10	14,322	n/a ³	(20.00)% ⁴	n/a ³	n/a ³	23.08%	7.16%	EA	n/a ⁸	n/a ⁸	n/a ¹⁰	N
Husoke Holdings Limited (704)	Open Offer	19 August 2022	2 for 1	122	(30.50)%	(31.40)%	n/a ³	(12.80)%	66.67%	20.93%	EA	N ⁶	n/a ⁶	n/a ¹⁰	N

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company name (Stock code)	Rights Issue/Open Offer	Announcement date	Basis of entitlement	Maximum amount of total fund raised <i>HK\$ million</i>	Closing price/ Date of announcement	5-day average	10-day average	(Discount)/ premium of subscription price (to)/over the theoretical ex-rights/ entitlement price	Potential maximum dilution of shareholding ¹	Theoretical dilution effect ²	Compensatory Arrangements/ Excess Application (CA/EA)	Fully Underwritten/ Partially Underwritten/ Underwritten on best effort basis/ Placing (FU/ PU/UBE/P)	Commission	Placing Underwriting Commission	Minimum Underwriting/ Placing fee <i>HK\$</i>
Easy Repay Finance & Investment Limited (8079)	Rights Issue	10 August 2022	1 for 2	14	(44.95)%	(47.83)%	(47.83)%	(35.14)%	33.33%	15.94%	CA	P ⁶	n/a ⁶	7.07%	N
Jia Yao Holdings Limited (626)	Rights Issue	5 August 2022	1 for 1	180	(14.29)%	(12.02)%	(16.20)%	(7.69)%	50.00%	7.14%	EA	FU	5.00%	n/a ¹⁰	N
Xinyi Electric Storage Holdings Limited (8328)	Rights Issue	4 August 2022	1 for 10	394	(18.82)%	(8.03)%	(7.63)%	(17.41)%	9.09%	1.71%	EA	N ⁶	n/a ⁶	n/a ¹⁰	N
SJM Holdings Limited (880)	Rights Issue	3 August 2022	1 for 4	2,954	(33.80)%	(34.80)%	(36.00)%	(29.00)%	20.00%	6.96%	EA	FU	2.00%	n/a ¹⁰	N
Kwan On Holdings Limited (1559)	Rights Issue	3 August 2022	1 for 4	59	0.00%	(0.40)%	(0.53)%	(0.42)%	20.00%	0.08%	EA	N ⁶	n/a ⁶	n/a ¹⁰	N
China Financial Leasing Group Limited (2312)	Rights Issue	28 July 2022	2 for 1	44	(29.10)%	(29.20)%	(29.30)%	(12.10)%	66.67%	19.49%	EA	FU	1.00%	n/a ¹⁰	N
	Average:			1,424	(20.33)%	(20.98)%	(21.01)%	(13.34)%	39.90%	9.06%			1.80%	3.01%	
	Minimum:			14	(44.95)%	(47.83)%	(47.83)%	(35.14)%	9.09%	0.08%			0.00%	1.00%	
	Maximum:			14,322	0.00%	(0.40)%	(0.53)%	(0.42)%	71.43%	20.93%			5.00%	7.07%	
	Median:			120	(17.76)%	(17.11)%	(16.70)%	(11.69)%	38.46%	7.15%			1.00%	2.50%	
Company (362)	Rights Issue	18 October 2022	5 for 2	78	(28.57)%	(25.93)%	(25.93)%	(9.10)%	71.43%	21.43%	EA	UBE ¹²	1.00%	n/a ¹⁰	N

Source: website of the Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The potential maximum dilution effect of each Comparable is calculated by the number of new rights shares divided by the total number of issued shares as enlarged by the issue of the new rights shares.
2. Theoretical dilution effect of an offer is calculated according to Rule 7.27B of the Listing Rules and refers to the discount of the “theoretical dilution price” to the “benchmarked price” of shares. “Theoretical diluted price” refers to the sum of (i) the issuer’s total market capitalization (by reference to the “benchmarked price” and the number of issued shares immediately before the issue) and (ii) the total funds raised and to be raised from the issue, divided by the total number of shares as enlarged by the issue. While the “benchmarked price” means the higher of: (i) the closing price on the date of the agreement involving the issue; and (ii) the average closing price in the 5 trading days immediately prior to the earlier of: (1) the date of announcement of the issue; (2) the date of the agreement involving the issue; and (3) the date on which the issue price is fixed. If there is a premium or no discount of subscription price over to the closing price per share on the respective last trading day, the dilution impact is deemed to be not applicable.
3. This information is not disclosed in the relevant announcement/circular of this Comparable.
4. Given that it is stated in the announcement of this Comparable that “*The Rights Issue Price of the H Shares shall not be lower than 80% of the average closing price in Hong Kong dollars of the Company’s H Shares on the Hong Kong Stock Exchange in the five trading days immediately prior to the publication date...*”, a discount of 20% is assumed for illustrative purpose.
5. Given that it is stated in the announcement of this Comparable that its placing commission is “*The sum of (a) a fee of HK\$100,000 or 0.5% of the portion of the Placing Amount that is equal to or less than HK\$20,000,000, whichever is higher; and (b) if the total Placing Amount is over HK\$20,000,000, a fee of 1.5% of the portion of the Placing Amount that exceeds HK\$20,000,000*”, an average placing commission of 1.00% is assumed for illustrative purpose.
6. The rights issue of this Comparable is on a non-underwritten basis as disclosed in the relevant announcement.
7. It is stated in the announcement of this Comparable that its underwriting commission is “*Approximately HK\$1.23 million (or approximately US\$0.16 million), being 1% of the aggregate subscription amount in respect of the maximum number of Underwritten Shares (i.e. 1,569,711,046 Rights Shares) committed to be underwritten, subscribed for or procured subscription for by the underwriter.*”
8. The rights issue of this Comparable is underwritten but whether it is fully underwritten and the underwriting commission are not disclosed in the relevant announcement/circular.
9. The rights issue of this Comparable is on a partially underwritten basis as disclosed in the announcement. The number of rights shares to be underwritten by the underwriter is up to 1,569,711,046 underwritten rights shares out of a total of up to 2,400,347,881 rights shares or 2,468,728,881 rights shares, as the case maybe.
10. There is no placing arrangement for this Comparable/the Company as disclosed in the relevant announcement/circular.
11. Given that it is stated in the announcement of this Comparable that its placing commission is “*(i) a fixed fee of HK\$150,000 (or approximately US\$19,000 or (ii) 2% of the gross proceeds, whichever is higher, from the successful placement of Unsubscribed Rights Shares*”, a placing commission of 2.00% is assumed for illustrative purpose.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

12. The Rights Issue is on a underwritten on best effort basis as disclosed in the Announcement. The Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares of (i) 312,077,930 Rights Shares out of a total of 376,820,120 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date); or (ii) 332,613,187 Rights Shares out of a total of 397,355,377 Rights Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), both being all the Rights Shares other than the 64,742,190 Rights Shares committed to be subscribed pursuant to the Irrevocable Undertaking.

6.2 The Subscription Price and dilution

As illustrated in the table above, we note that variance of the subscription price to the closing price on the respective last trading day of the Comparables ranges from a discount of approximately 44.95% to a discount of 0.00%, with an average figure being a discount of approximately 20.33%. The Subscription Price's discount to closing price on Last Trading Day of approximately 28.57% therefore falls within the range of the discount to the last trading day of the Comparables and represents a higher discount than the average figure thereof.

We note that the variance of the subscription price to the average closing price of the last five trading days of the Comparables ranges from a discount of approximately 47.83% to a discount of approximately 0.40%, with an average figure being a discount of approximately 20.98%. The Subscription Price's discount to the average closing price for the five trading days up to and including the Last Trading Day of approximately 25.93% therefore falls within the range of discount to the average closing price of the last five trading day of the Comparables and represents a slightly higher discount than the average figure thereof.

We further note that the variance of the subscription price to average closing price of the last ten trading days of the Comparables ranges from a discount of approximately 47.83% to a discount of approximately 0.53%, with an average figure being a discount of approximately 21.01%. The Subscription Price's discount to the average closing price for the ten trading days up to and including the Last Trading Day of approximately 25.93% therefore falls within the range of discount to the average closing price of the last ten trading day of the Comparables and represents a slightly higher discount than the average figure thereof.

In determining the current subscription ratio and the Subscription Price, we understand from the Management that the Company has considered various factors, including (i) as in other market precedents, that a reasonable discount to the closing price of the Adjusted Shares is necessary to attract the Qualifying Shareholders to participate in the Rights Issue; (ii) the funding needs of the Group; (iii) the Subscription Price has to be set at a discount to the closing price of the Adjusted

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shares that is acceptable to the independent Underwriter; and (iv) the dilution effect to the existing Shareholders as further discussed immediately below and in section 7 of this letter.

It is noted that the potential maximum dilution on shareholding of the Comparables ranged from approximately 9.09% to approximately 71.43% (the “**Shareholding Dilution Range**”) with an average of approximately 39.90%. The potential dilution effect of Rights Issue of approximately 71.43% therefore (i) is at the high end of the Shareholding Dilution Range; and (ii) is significantly above the average figure thereof. We note that the dilution effect is determined by the basis of entitlement of the rights issue which also determines the number of rights shares available for subscription while the basis of entitlement is mainly based upon the Company’s actual funding needs as discussed in section 2 of this letter.

It is noted that the theoretical dilution effect (the calculation of which is explained in note 2 above) of the Comparables ranged from approximately 0.08% to approximately 20.93% (the “**Theoretical Dilution Effect Range**”) with an average of approximately 9.06%. The Rights Issue’s theoretical dilution effect of approximately 21.43% therefore (i) is slightly above the high end of the Theoretical Dilution Effect Range; and (ii) is significantly above the average figure thereof. As the theoretical dilution effect of the Rights Issue is below 25%, it is in compliance with Rule 7.27B of the Listing Rules.

In view of (i) although the Subscription Price represents higher discount than the closing price of the last trading day, average closing price of the last five trading days and the average closing price of the last ten trading days of the Comparables respectively, it still falls within the ranges of such Comparables; (ii) the Subscription Price is available to all Qualifying Shareholders and the independent Underwriter without any prejudice or favoritism towards any particular party; (iii) a relatively higher discount as represented by the Subscription Price may increase the overall appeal or attractiveness of the Rights Issue to the Qualifying Shareholders in light of the dire circumstances faced by the Company as discussed in section 1 of this letter; (iv) the potential maximum dilution on shareholding of the Rights Issue is at the high end of the Shareholding Dilution Range but such a situation might have been necessitated by the Company’s relatively low market capitalization as at the date of the Underwriting Agreement and its funding needs as discussed in section 2 of this letter; and (v) the theoretical dilution effect of the Rights Issue is above the high end of the range of the Theoretical Dilution Effect Range but such a situation might have also been necessitated by the Company’s relatively low market capitalization as at the date of the Underwriting Agreement and its funding needs as discussed in section 2 of this letter, we consider that the principal terms of the Rights Issue (including the Subscription Price) and potential dilution of the Rights Issue are fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6.3 Underwriting or placing commission

As illustrated in the analysis set out in section 6.1 of this letter, the underwriting commission of the Comparables range from a low of 0.00% to a high of 5.00%, with the average figure being approximately 1.80%. Accordingly, the underwriting commission of 1% pursuant to the Underwriting Agreement is closer to the low end of the range of the Comparables and is below the average figure thereof. In addition, the placing commission (which is similar to the underwriting commission under the Underwriting Agreement given it is only on a best effort basis) of the Comparables range from a low of 1.00% to a high of 7.07%, with the average figure being approximately 3.01%. Accordingly, the underwriting commission of 1% pursuant to the Underwriting Agreement is at the low end of the range of the Comparables and is below the average figure thereof. Given the relatively lower underwriting commission set out in the Underwriting Agreement will lead to lower costs to the Group, we consider that the underwriting commission payable to the Underwriter is in line with the market practice and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6.4 Excess application

As stated in the Letter from the Board, Qualifying Shareholders may apply for Rights Shares in excess of their provisional entitlements. We are of the view that the excess application arrangements for the Excess Rights Issue are in compliance with Rule 7.21(1)(a) of the Listing Rules. As there are already excess application arrangements in place for the Rights Issue, there will be no compensatory arrangements in relation to the Rights Issue in compliance with Rule 7.21(1) of the Listing Rules. We note that 8 out of 13 Comparables have facilitated excess application arrangements. Therefore, we consider that the excess application arrangements for the Excess Rights Issue are in line with the market practice, are not out of the ordinary and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. Possible dilution effect on interests of other public Shareholders

The attention of the Independent Shareholders is drawn to the section headed “Changes in the shareholding structure of the Company arising from the Capital Reorganisation and Rights Issue” in the Letter from the Board for the analysis on shareholding under various scenarios. As noted in the aforementioned section, the shareholding of the “other public Shareholders” is approximately 82.54% as at the Latest Practicable Date. The shareholding interests of the Qualifying Shareholders who take up their provisional allotments of the Rights Shares in full will not suffer from any dilution. Under scenario (1) which assumes no new Shares are allotted and issued pursuant to any exercise of the Share Options and/or pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company from the Latest Practicable Date up to the Record Date, the shareholding of the “other public Shareholders” will be diluted

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to approximately 23.58% under the worst case scenario where there is no acceptance by the Qualifying Shareholders (other than Mr. Chan) and the Untaken Shares are taken up by the Underwriter and the subscribers procured by it, representing a decrease in shareholding by approximately 58.96%.

We are aware of the above-mentioned potential dilution effects. However, we consider that the dilutive effect should be considered in conjunction with the following factors:

- (1) Independent Shareholders are given the chance to express their views on the terms of the Rights Issue through their votes at the SGM;
- (2) Qualifying Shareholders have the choice to accept or not accept the Rights Issue;
- (3) the Rights Issue offers the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical and prevailing market prices of the Adjusted Shares;
- (4) those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue;
- (5) those Qualifying Shareholders who wish to take advantage of the discount as represented by the Subscription Price and increase their shareholding in the Company can choose to do with by way of excess application of Excess Rights Shares; and
- (6) despite the Non-Qualifying Shareholders will not be offered and allotted the nil-paid Rights Shares, as stated in the Letter from the Board, arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders had they been Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and in any event before dealings in the nil-paid Rights Shares end, if a premium in excess of all expenses of sale can be obtained. The aggregate net proceeds of such sale will be distributed by the Company to the Non-Qualifying Shareholders (pro-rata to their respective entitlements on the Record Date and round down to the nearest cent) in Hong Kong dollars, provided that if any of such Non-Qualifying Shareholders would be entitled to a sum not less than HK\$100. In view of administrative costs, the Company will retain individual amount of less than HK\$100 for its own benefit. Any unsold nil-paid Rights Shares to which such Non-Qualifying Shareholders (if any) would otherwise have been entitled will be made available for excess application by the Qualifying Shareholders under the EAFs. Such arrangement allows Non-Qualifying Shareholders to also enjoy the premium of a sale of the nil-paid Rights Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered (i) the principal terms of the Rights Issue are fair and reasonable as discussed in sections 6.2, 6.3 and 6.4 of this letter; (ii) any form of non-pro rata equity fund-raising activities would also have an immediate dilution effect to other Shareholders; (iii) if the Company satisfies future funding needs through other equity financing such as placement/subscription of new Shares and/or issue of convertible bonds or raising additional debts to satisfy its funding needs, such equity/debt financing methods will either have an immediate dilution effect to all existing Shareholders or further increase gearing of the Group as discussed in section 3 of this letter; (iv) the Rights Issue is conducted on the basis that all Qualifying Shareholders have been offered the equal opportunity to maintain their proportional interests in the Company at a lower than historical prevailing market price, or to obtain additional shareholding of the Company by way of the Excess Rights Shares; (v) the reasons for the Rights Issue and use of proceeds as discussed in section 2 of this letter; and (vi) our further reasoning regarding the Shareholding Dilution Range and the Theoretical Dilution Effect Range as discussed in section 6.2 of this letter, we are of the view that the dilution effect to the shareholding interests of the non-participating Shareholders is acceptable.

8. Financial effects of the Rights Issue

8.1 Net asset value

We note from the “Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group” set out in Appendix II to the Circular that the Group’s audited consolidated net tangible liabilities attributable to owners of the Company as at 30 June 2022 is approximately HK\$873.2 million, while unaudited consolidated net tangible liabilities attributable to owners of the Company per Share as at 30 June 2022 immediately after the completion of the Share Consolidation but before the completion of the Rights Issue is approximately HK\$6.56. After pro forma adjustments, the unaudited pro forma adjusted consolidated net tangible liabilities attributable to the owners of the Company as at 30 June 2022 immediately after the completion of the Share Consolidation and Rights Issue would improve to approximately HK\$795.6 million, while unaudited pro forma adjusted consolidated net tangible liabilities attributable to owners of the Company per Share as at 30 June 2022 immediately after the completion of the Share Consolidation and Rights Issue would improve to approximately HK\$1.71.

As per the Letter from the Board, the Group is expected to raise net proceeds of approximately HK\$77.6 million (assuming full acceptance by Qualifying Shareholders or the Untaken Shares are fully taken up by the Underwriter). Accordingly, the Rights Issue is expected to have a positive impact on the Group’s net assets position upon completion of the Rights Issue. In addition, the Rights Shares which will be issued at a premium to the net liabilities attributable to owners of the Company per Share as mentioned above are expected to improve the net liabilities attributable to owners of the Company per Share upon the completion of the Rights Issue.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

8.2 Working Capital

The Rights Issue is expected to have a positive effect on the Group's working capital upon completion as the proceeds from the Rights Issue will bring in net proceeds of approximately HK\$77.6 million (assuming full acceptance by Qualifying Shareholders or the Untaken Shares are fully taken up by the Underwriter) to the Group.

8.3 Gearing

As per the 2022 Annual Report, the Group had total debts of approximately HK\$1,255.4 million (comprising of (i) bank loans (non-current portion) of approximately HK\$13.3 million; (ii) bonds payable (non-current portion) of approximately HK\$916.8 million; (iii) convertible bonds (non-current portion) of approximately HK\$16.5 million; (iv) other loans of approximately HK\$120.4 million; (v) bank loans (current portion) of approximately HK\$9.1 million; (vi) bonds payable (current portion) of approximately HK\$149.4 million; and (vii) convertible bonds (current portion) of approximately HK\$29.9 million) and total assets of approximately HK\$1,238.2 million as at 30 June 2022, which give rise to a debt ratio (total debts/total assets x 100%) of approximately 101.4%.

As approximately 87.11% of the estimated net proceeds of the Rights Issue will be used for the repayment of the Company's indebtedness and interest expenses, it is expected that the Group's total debts will be reduced and the debt ratio of the Group would decrease as a result.

8.4 Liquidity

As per the 2022 Annual Report, the Group had current assets of approximately HK\$150.0 million and current liabilities of approximately HK\$1,116.5 million as at 30 June 2022. Accordingly, the Group's current ratio (current assets/current liabilities) as at 30 June 2022 was approximately 0.13 times.

The estimated net proceeds from the Rights Issue is expected to enhance the Group's current assets by approximately HK\$77.6 million (assuming full acceptance by Qualifying Shareholders or the Untaken Shares are fully taken up by the Underwriter) and the Rights Issue is expected to improve the Group's liquidity position immediately after its completion.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and in particular:

- (i) the critical financial position the Group is experiencing as discussed in section 1 to this letter;
- (ii) the intended use of approximately 87.11% of the net proceeds (approximately HK\$67.6 million) for the repayment of the Company's indebtedness and interest expenses as discussed in section 2 of this letter;
- (iii) the Group is already in advanced stage of settlement negotiations with the relevant creditors involving "haircut" on the outstanding principal on the Bonds Under Negotiation and the Group is expected to enjoy the Estimated Savings of approximately HK\$12.5 million after completion of the Rights Issue, with another approximately HK\$65 million in Other Bonds Under Negotiation which the Management is confident that it will be able to procure favorable outcome from such negotiations should the Rights Issue complete and the Group has obtained the necessary funding for repayment of principal amount after "haircut";
- (iv) other equity or debt financing options are either, not suitable to fulfill the Group's funding needs, have an immediate dilutive effect on existing Shareholders, not in the best interest of the Shareholders or simply not feasible given the Group's financial position as discussed in section 3 of this letter;
- (v) the Rights Issue allows all Qualifying Shareholders to have a fair opportunity to participate in the potential growth of the Company while maintaining their respective pro rata shareholding interests in the Company by subscribing to the Rights Shares at a lower than historical prevailing price, or to obtain additional shareholding of the Company by way of the Excess Rights Shares;
- (vi) the principal terms of the Rights Issue (including the Subscription Price) of the Rights Issue are fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole as discussed in section 6.2 of this letter;
- (vii) the underwriting commission charged by the Underwriter is fair and reasonable as discussed in section 6.3 of this letter and in the interests of the Company and the Shareholders as a whole;
- (viii) the excess application arrangements for the Excess Rights Issue are in line with the market practice, are not out of the ordinary and are fair and reasonable and in the interests of the Company and the Shareholders as a whole as discussed in section 6.4 of this letter; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ix) given the Company's circumstances, the potential dilution effect to the non-participating Shareholders is acceptable as discussed in section 7 of this letter,

we are of the opinion that the terms of the Rights Issue (including the Subscription Price) are fair and reasonable and in the interest of the Company and Shareholders as a whole. Accordingly, we would advise (i) the Independent Board Committee to recommend the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Rights Issue and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Grand Moore Capital Limited

Kevin So

Director – Investment Banking Department

Note: Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 20 years of experience in the corporate finance industry in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 30 June 2020, 2021 and 2022 are disclosed in the annual reports of the Company for the years ended 30 June 2020, 2021 and 2022, respectively. These annual reports are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (http://www.chinazenith.com.hk/en/ir_reports.php):

- (a) annual report of the Company for the year ended 30 June 2020 published on 1 November 2020 (pages 70 to 184) in relation to the financial information of the Group for the same year (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1101/2020110100115.pdf>);
- (b) annual report of the Company for the year ended 30 June 2021 published on 16 November 2021 (pages 60 to 180) in relation to the financial information of the Group for the same year (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/1116/2021111600412.pdf>); and
- (c) annual report of the Company for the year ended 30 June 2022 published on 31 October 2022 (pages 59 to 204) in relation to the financial information of the Group for the same year (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/1031/2022103100473.pdf>).

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 September 2022, being the indebtedness date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness were as follows:

Lease liabilities

As at 30 September 2022, the Group, as a lessee, had lease liabilities with outstanding principal amount of approximately HK\$0.9 million.

Convertible bonds

The Group had an outstanding principal of convertible bonds, being unsecured and unguaranteed, of approximately HK\$20.0 million, which is non-interest bearing and repayable by 12 November 2023.

Interest-bearing bank borrowings

The Group had interest-bearing and unguaranteed bank borrowings of approximately HK\$21.5 million, which is secured by the Group's property, plant and equipment and right-of-use assets of approximately HK\$1.8 million and HK\$135.0 million respectively. The bank borrowings of (i) approximately HK\$8.9 million are repayable on demand or repayable within one year; (ii) approximately HK\$2.9 million repayable in the second year;

(iii) approximately HK\$8.9 million repayable in the third to fifth years; and (iv) approximately HK\$0.8 million repayable after five years.

Other borrowings

The Company had interest-bearing other borrowings of approximately HK\$48.8 million which are repayable within one year, unguaranteed and secured by the Group's property, plant and equipment and right-of-use assets of approximately HK\$1.8 million and HK\$135.0 million respectively.

Bonds

The Group had outstanding bonds, being unsecured and unguaranteed, with principal amount of approximately HK\$1,248.2 million, which is unsecured and of which (i) approximately HK\$186.1 million repayable within one year; (ii) approximately HK\$283.1 million repayable in the second year; and (iii) approximately HK\$779.0 million repayable in the third to fifth years inclusive.

Contingent liabilities

On 19 November 2012, China Electricity Construction Consultant Group Dongbei Electricity Design College* (中國電力工程顧問集團東北電力設計院) (the "**Plaintiff**") filed a writ (the "**Writ**") at the high court of Heilongjiang Province in the PRC (the "**Heilongjiang High Court**") against Mudanjiang BD Power, an indirect wholly-owned subsidiary of the Company.

Mudanjiang BD Power had contracted the Plaintiff to construct certain coal-powered electricity generating facilities at the business address of Mudanjiang BD Power (the "**Contract**"). According to the management of Mudanjiang BD Power, the construction work had been slowed down because the financial resources available for the project development were tied up by unfavourable business operations since 2009. Owing to the alleged delay in the progress of the construction, the Plaintiff claimed against Mudanjiang BD Power (i) the payment of the contract sum in the amount of approximately RMB42,700,000 and the interest thereon; (ii) the grant of the first priority right to receive payment from Mudanjiang BD Power in respect of the subject construction project under the Contract; (iii) damages in the sum of approximately RMB13,300,000 for alleged termination of the Contract; and (iv) the legal fees arising from this legal case. The Company has been seeking legal advice in respect of the Writ on the dispute in the payment for the Contract since December 2012. During the year ended 30 June 2019, the Heilongjiang High Court had adjudged that Mudanjiang BD Power was liable to compensate the Plaintiff of approximately RMB61,400,000. Upon the end of the year ended 30 June 2021, Mudanjiang BD Power was negotiating with the Plaintiff to continue the construction of the coal-powered electricity generating facilities. Once performance of the Contract was resumed under the mutual agreement between Mudanjiang BD Power and the Plaintiff, part of the damages granted may be absorbed in the cost of construction. Up to

the Latest Practicable Date, the negotiation between Mudanjiang BD Power and the Plaintiff had yet been concluded.

The management has made sufficient provision for this legal claim and believes that a favorable settlement could be reached with the Plaintiff.

Save as disclosed above, the Group did not have any other material contingent liabilities as at 30 September 2022.

Disclaimers

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, normal trade and other payables and contract liabilities, as at 30 September 2022, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages and charges, hire purchase commitments, material contingent liabilities or guarantees outstanding.

To the best knowledge of the Directors, having made all reasonable enquiries, (i) there has been no material change in indebtedness or contingent liabilities of the Group since 30 September 2022; (ii) there has not been any default on repayments or other obligations in any material respect under the loan agreements; (iii) the Group does not have material covenants relating to the outstanding debts; (iv) the Group has complied with all of the finance covenants up to the Latest Practicable Date; and (v) the Group does not have any material external debt financing plans as at the Latest Practicable Date.

3. WORKING CAPITAL

As noted from the Company's annual report for the year ended 30 June 2022, the audit opinion was disclaimed by the Company's independent auditor because of, *inter alia*, the limitation of scope in relation to the adoption of the going concern basis in preparing the consolidated financial statements for the year ended 30 June 2022.

As set out in the Company's annual report for the year ended 30 June 2022, the Group incurred net loss of approximately HK\$1,073.8 million and the Group's current liabilities exceeded its current assets by approximately HK\$966.5 million. As at 30 September 2022, the Group had bank loans and bonds payable amounted to approximately HK\$21.4 million and HK\$1,248.2 million respectively, out of which approximately HK\$6.1 and HK\$82.3 million had been overdue.

As of 30 September 2022, the Group's principal value of bonds which are payable within one year was approximately HK\$186 million. The Group is in the process of negotiating for a settlement of bond payables to several bondholders in the amount of approximately HK\$186 million. In the event that a settlement is reached between the Company and bondholders, the Company expects the relevant bond payables in the amount of HK\$186 million to be deferred or discounted.

As at the Latest Practicable Date,

- (i) no waiver was granted by the respective lenders;
- (ii) no agreement has been reached with bondholders for the bonds in the amount of HK\$186 million;
- (iii) no agreement has been reached with the counterparty in a litigation case in the amount of HK\$77 million.

In preparing the working capital forecast for the Group for the 12 months, the Group has carried out the following measures for the purpose of ensuring there are sufficient working capital for at least the next 12 months from the date of this circular:

- (i) the Group is in the process of negotiating for a settlement of bond payables to several bondholders in the amount of approximately HK\$186 million. In the event that a settlement is reached between the Company and bondholders, the Company expects the relevant bond payables in the amount of HK\$186 million to be deferred or discounted;
- (ii) Heihe Longjiang Chemical Limited (“**Heihe Longjiang**”), a company indirectly owned as to 90% by the Company, would receive the gross proceeds of approximately HK\$184 million in connection with the sale of land use rights of certain lands in the PRC held by Heihe Longjiang to Heihe Longhe Investment Management Limited (黑河龍合投資管理有限責任公司), an independent third party;
- (iii) the Group had several idle right-of-use assets and buildings with a total carrying amount of approximately HK\$123 million and approximately HK\$45 million respectively. These right-of-use assets and buildings are available to be disposed, which have a total market value of approximately HK\$193 million;
- (iv) the Company was in the process of negotiating for a settlement with the counterparty in a litigation case and in the event that a settlement can be reached between the Company and the counterparty, there will be an excess in litigation provision of the Company in the amount of HK\$77 million; and
- (v) the Group would apply cost cutting measures to reduce administrative expenses and cash outflows for the next twelve months.

Taking into considerations of items (i) to (v) above, and the estimated net proceeds from the Rights Issue, the Directors after due and careful enquiry are of the opinion that the working capital available to the Group is sufficient for the Group’s requirements for at least 12 months from the date of this circular.

4. MATERIAL ADVERSE CLAUSE

As at the Latest Practicable Date, the Directors confirm that there is not any material adverse change in the financial or trading position of the Group since 30 June 2022, being the date to which the latest published audited accounts of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the manufacturing and sales of coal-related chemical products, the generation and supply of electricity and thermal energy and construction services.

As disclosed in the 2022 Annual Report, during the year ended 30 June 2022, revenue of the Group amounted to approximately HK\$370 million (2021: approximately HK\$229 million), representing an increase of approximately 62% compared with that of the last financial year. The increase in the Group's revenue was mainly derived from the increase in revenue of the heat and power segment.

Coal-related Chemical Production Division

Although the COVID-19 pandemic still has an impact on the PRC economies and market price of coal is at its peak, the Board overcame several barriers to resume the production of calcium carbide in Heihe Longjiang Chemical Co., Ltd. ("**Longjiang Chemical**"), a subsidiary of the Company and Longjiang Chemical has officially commenced the production of calcium carbide in late June 2021. The Board believes that Longjiang Chemical would be the growth driver of the Group in the forthcoming years. Looking forward, our management will closely monitor the situation and will consider to resume the lower stream operation as well as the polyvinyl-chloride and vinyl acetate production lines.

Heat and Power Division

On 26 August 2022, the Group received a notice issued by Mudanjiang Authority of Housing and Urban-Rural Development stating that the Authority has temporarily taken over the operations of Mudanjiang BD Power. Upon the effective of the above notice, Mudanjiang BD Power shall be deemed as deconsolidated from the consolidated financial statements of the Group and be classified as a discontinued operation.

Construction Services Division

Due to the impact of the outbreak of the Pandemic, Mudanjiang Jinyang Municipal Engineering Company Limited ("**Jinyang Engineering**") was disposed during the year ended 30 June 2022.

The management is also seeking for opportunity to carry out new projects and transactions which could bring economic value and benefit to our shareholders.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE LIABILITIES ATTRIBUTABLE TO OWNERS OF THE COMPANY

Introduction

The following unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group attributable to the owners of the Company (the “**Unaudited Pro Forma Financial Information**”) has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for inclusion in Investment Circular” issued by the Hong Kong Institute of Certified Public Accountants is for illustration only, and is set out in this appendix to illustrate the effect of the Rights Issue on the consolidated net tangible liabilities of the Group as at 30 June 2022 attributable to the owners of the Company as if the Rights Issue had taken place on such date.

The Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible liabilities of the Group attributable to the owners of the Company as at 30 June 2022 or at any future date.

The Unaudited Pro Forma Financial Information of the Group as at 30 June 2022 is prepared by the Directors based on the audited consolidated statement of financial position of the Group as at 30 June 2022, extracted from the published results announcement of the Group for the year ended 30 June 2022, with adjustments described below.

	Audited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2022	Unaudited estimated net proceeds from the Rights Issue	Unaudited pro forma adjusted consolidated net tangible liabilities attributable to the owners of the Company as at 30 June 2022 immediately after the completion of the Rights Issue	Audited consolidated net tangible liabilities attributable to owners of the Company per Share as at 30 June 2022 before the completion of the Share Consolidation and Rights Issue	Unaudited consolidated net tangible liabilities attributable to owners of the Company per Share immediately after the completion of the Share Consolidation and Rights Issue	Unaudited pro forma adjusted consolidated net tangible liabilities attributable to owners of the Company per Share immediately after the completion of the Share Consolidation and Rights Issue
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000	HK\$ (Note 3)	HK\$ (Note 4)	HK\$ (Note 5)
Based on 397,355,377 Rights Shares to be issued at Subscription Price of HK\$0.20 per Rights Share	(873,168)	77,600	(795,568)	(0.33)	(6.56)	(1.71)

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Notes:

1. The consolidated net tangible liabilities of the Group attributable to owners of the Company of approximately HK\$873,168,000 as at 30 June 2022 is based on the consolidated net liabilities of the Group attributable to owners of the Company as at 30 June 2022 of approximately HK\$873,168,000, as extracted from the annual results announcement of the Company for the year ended 30 June 2022.
2. The estimated net proceeds of approximately HK\$77,600,000 from the Rights Issue are based on 397,355,377 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date) at the Subscription Price of HK\$0.20 per Rights Share, after deduction of estimate related expenses (including advisory fees for the professional parties, printing, registration, translation, legal, accounting and documentation charges) payable by the Company.
3. The number of shares used for the calculation of the unaudited pro forma adjusted consolidated net tangible liabilities of the Group per share attributable to the owners of the Company before the completion of the Share Consolidation and the Rights Issue, is based on 2,660,560,978 shares in issue as at 30 June 2022.
4. The number of shares used for the calculation of the unaudited pro forma adjusted consolidated net tangible liabilities of the Group per share attributable to the owners of the Company immediately after the completion of the Share Consolidation but before the completion of the Rights Issue is based on 133,028,049 shares in issue immediately after the completion of Share Consolidation as if the Share Consolidation has been completed on 30 June 2022.
5. The unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to the owners of the Company per share as at 30 June 2022 immediately after the completion of the Share Consolidation and the Rights Issue as if the Share Consolidation and the issuance of 332,570,123 Rights Shares had been completed on 30 June 2022, but does not take into account any shares which have been or may be issued upon the exercise of options granted under the share option scheme (if any) subsequent to 30 June 2022.
6. Save as disclosed above, no adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2022.

B. ACCOUNTANT’S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from McMillan Woods (Hong Kong) CPA Limited, Certified Public Accountants, Hong Kong, the independent reporting accountants of the Company, in respect of the Group’s unaudited pro forma financial information prepared for the purpose of incorporation in this circular.



24th Floor
Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong

21 November 2022

The Board of Directors of
China Zenith Chemical Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Zenith Chemical Group 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 adjusted consolidated net tangible liabilities as at 30 June 2022 and related notes as set out on pages 92 to 93 of the circular issued by the Company dated 21 November 2022 (the “**Circular**”). The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described in Section A 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 basis of five rights shares for two consolidated shares at the subscription price of HK\$0.2 per rights share (the “**Rights Issue**”) on the Group’s consolidated financial position as at 30 June 2022 as if the Rights Issue had taken place on 30 June 2022. As part of this process, information about the Group’s net tangible liabilities as at 30 June 2022 has been extracted by the directors from the Group’s consolidated statement of financial position as at 30 June 2022, included in the results announcement of the Group for the year ended 30 June 2022.

DIRECTORS’ RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The directors 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 (the “HKICPA”).

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement 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 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 ACCOUNTANT’S 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 accountant plan and perform procedures to obtain reasonable assurance about whether the directors 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 event or transaction on unadjusted financial information of the Group as if the event 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 Rights Issue at 30 June 2022 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 event or 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 accountant's judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or 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 director 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.

Yours faithfully,

McMillan Woods (Hong Kong) CPA Limited
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

(A) Share Capital

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately following the completion of the Share Consolidation but before the completion of the Rights Issue; and (iii) immediately following the completion of the Rights Issue (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date to completion of the Rights Issue and full acceptance by Qualifying Shareholders) are as follows:

(a) As at the Latest Practicable Date

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>5,000,000,000</u>	Existing Shares of HK\$0.1 each	<u>500,000,000</u>
 <i>Issued and fully paid:</i>		
<u>3,014,560,978</u>	Existing Shares of HK\$0.1 each	<u>301,456,097.8</u>

(b) The Shares in issue immediately following the Capital Reorganisation but before the completion of the Rights Issue (assuming no further issue and/or repurchase of Existing Shares from the Latest Practicable Date to the effective date of the Capital Reorganisation) will be as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>5,000,000,000</u>	Adjusted Shares of HK\$0.1 each	<u>500,000,000</u>
 <i>Issued and fully paid:</i>		
<u>150,728,048</u>	Adjusted Shares of HK\$0.1 each	<u>15,072,804.8</u>

- (c) The Shares in issue immediately following the completion of the Rights Issue (assuming no further issue and/or repurchase of the Existing Shares and/or Adjusted Shares from the Latest Practicable Date to the completion of the Rights Issue) will be as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>5,000,000,000</u>	Adjusted Shares of HK\$0.1 each	<u>500,000,000</u>
 <i>Issued and fully paid:</i>		
150,728,048	Adjusted Shares of HK\$0.1 each	15,072,804.8
376,820,120	Rights Shares to be allotted and issued under the Rights Issue	37,682,012.0
<u>527,548,168</u>	Total	<u>52,754,816.8</u>

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects, including the rights to dividends, voting and return of capitals with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

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 the 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, save for the outstanding Share Options and Convertible Bonds disclosed in this circular, the Company had no outstanding convertible securities, options, or warrants in issue which conferred any right to subscribe for, convert or exchange into Shares.

As at the Latest Practicable Date, save for the outstanding Share Options and Convertible Bonds disclosed in this circular, none of the capital of any member of the Group was under option, or agreed conditionally or unconditionally to be put under option. As at the Latest Practicable Date, there were no arrangements under which future dividends are waived or agreed to be waived.

(B) The Share Option Scheme

As at the Latest Practicable Date, the Company has an outstanding 99,135,542 Share Options granted to the grantees, detail of which are set out below:

Date of grant	Vesting Period	Exercise period	Exercise price at date of grant	Number of outstanding Share Options
3 November 2020	3 November 2020	3 November 2020 to 2 November 2023	HK\$0.397	99,135,542

(C) The Convertible Bonds

As at the Latest Practicable Date, the Company has outstanding Convertible Bonds in the amount of HK\$20,000,000, which 65,146,579 new Shares will be issued upon exercise of the conversion rights under the Convertible Bonds at the conversion price of HK\$0.307 per conversion Share.

The conversion period is the period commencing from (and including) the issue date of the Convertible Bonds, being 13 November 2020, and ending on (but excluding) the fifth day prior to the maturity date of the Convertible Bonds, being the date of the third anniversary of the issue date of the Convertible Bonds.

3. DISCLOSURE OF INTEREST BY DIRECTORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, the interests of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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 are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Shares of the Company (Long Position)

Name of Director	Capacity	Number of the Shares held	Approximate percentage of issued capital of the Company
Ms. Chan Yuk Foebe	Beneficial owner	2,860,000	0.09%
Mr. Gao Ran	Beneficial owner	2,440,000	0.08%
Mr. Liu Yangyang	Beneficial owner	3,320,000	0.11%

Interests in share options of the Company

Name of Director	Date of grant	Exercise period	Exercise price per Share	Balance at the Latest Practicable Date
Ms. Chan Yuk Foebe	03.11.2020	03.11.2020 to 02.11.2023	HK\$0.397	12,451,807
Mr. Law Tze Ping Eric	03.11.2020	03.11.2020 to 02.11.2023	HK\$0.397	12,451,807
Mr. Ma Wing Yun Bryan	03.11.2020	03.11.2020 to 02.11.2023	HK\$0.397	8,141,566
Mr. Tam Ching Ho	03.11.2020	03.11.2020 to 02.11.2023	HK\$0.397	8,141,566
Mr. Hau Chi Kit	03.11.2020	03.11.2020 to 02.11.2023	HK\$0.397	8,141,566

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

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or proposed Director was a director or employee of a company which had any interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DISCLOSURE OF INTEREST OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules of the Stock Exchange:

Long Position in Shares

Name	Capacity	Number of Shares held	Approximate percentage of issued capital of the Company
Mr. Chan Yuen Tung	Beneficial owner	517,937,537	17.18%
Mr. Chiau Che Kong	Beneficial owner	153,868,881	5.10%

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than the Directors and chief executives of the Company) who had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

5. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENT AND ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in the assets which had been, since 30 June 2022, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

6. DIRECTOR'S SERVICE CONTRACTS

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

7. COMPETING INTEREST

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

8. LITIGATION

Save as disclosed in the section headed "Working Capital" in Appendix I to this circular, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

9. MATERIAL CONTRACTS

Save as disclosed below, there had been no contract, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by members of the Group, entered into by members of the Group after the date falling two years immediately preceding the date of the Announcement and up to the Latest Practicable Date:

- (1) the disposal agreement dated 18 December 2020 entered into between Heihe Longjiang Chemical Co., Ltd. (黑河龍江化工有限公司) (“**Heihe Longjiang**”) and Heihe Longhe Investment Management Limited (黑河龍合投資管理有限責任公司) (“**Heihe Longhe**”), pursuant to which Heihe Longjiang agreed to transfer the land use rights of certain lands located in the PRC with a transfer price in an aggregate amount of RMB139,440,000 and land compensation of RMB17,000,000;
- (2) the acquisition agreement dated 2 February 2021 (which was terminated according to its terms on 18 May 2021) entered into between Mudanjiang Longjin Wine Co., Ltd. (牡丹江龍晉酒業有限公司) (“**Mudanjiang Wine**”), an indirect wholly-owned subsidiary of the Company, and three individuals who are independent third parties, pursuant to which Mudanjiang Wine agreed to purchase the entire equity interest in Beijing Yaolai Longwei Wine Co., Ltd. (北京耀萊龍微酒業有限公司) at a consideration of HK\$80 million;
- (3) the framework agreement dated 16 March 2021 entered into between Heihe Longjiang and Heihe Shark Technology Co., Ltd. (黑河鯊魚科技有限公司) regarding the establishment of a joint venture company to be held as to 50% by each party which would enable the Group to tap into businesses such as cryptocurrency and big data management and revitalise part of the assets of Heihe Longjiang;
- (4) the placing agreement dated 1 June 2021 entered into between the Company, Mr. Chan Yuen Tung and China Tonghai Securities Limited for the placing of up to 100,000,000 existing Shares on a best effort basis at the placing price of HK\$0.3 per placing share to not less than 6 places;
- (5) the subscription agreement dated 1 June 2021 entered into between the Company and Mr. Chan Yuen Tung to subscribe up to 100,000,000 Shares issued under general mandate at the subscription price of HK\$0.3 per subscription Share;
- (6) the letter of intent dated 10 August 2021 entered into between the Company and Tianjin Boguang Chemical Technology Co., Ltd. (天津博光化工技術有限公司) regarding the establishment of a joint venture company to be held as to 50% by each party which would engage in the manufacturing and selling of lithium battery raw materials, including but not limited to lithium hexafluorophosphate, lithium difluorophosphate, ethylenesulfate, vinylene carbonate, nonafluoro-tert-butyl alcohol, trifluoromethyltrimethylsilane, etc.;

- (7) the strategic investment framework agreement dated 16 August 2021 entered into between the Company and Beijing Gaoya Investment Management Limited (北京高雅投資管理有限公司) (“**Gaoya Investment**”) where Gaoya Investment agreed to cooperate with the Company and committed to make strategic investments in the Company to support the Company’s business development;
- (8) the placing agreement dated 24 August 2021 entered into between the Company, Mr. Chan Yuen Tung and China Tonghai Securities Limited for the placing of a maximum of 170,000,000 existing Shares on a best effort basis at the placing price of HK\$0.25 per placing Share to not less than 6 places;
- (9) the subscription agreement dated 24 August 2021 entered into between the Company and Mr. Chan Yuen Tung to subscribe up to 170,000,000 Shares issued under general mandate at the subscription price of HK\$0.25 per subscription Share;
- (10) the underwriting agreement dated 23 November 2021 entered into between the Company and the Underwriter in respect of the 2021 Rights Issue;
- (11) the letter of intent dated 23 December 2021 entered into between the Company and Mudanjiang Xuri New Material Technology Co., Limited* (牡丹江旭日新材料科技有限公司) (“**Mudanjiang Xuri**”) regarding the establishment of a joint venture company to be held as to 50% by each party for project cooperation;
- (12) the framework agreement dated 11 May 2022 entered into between the Company and Beijing Gaoya Investment Management Limited (“**Strategic Partner**”) in relation to the intention of the Strategic Partner to subscribe for convertible bonds and non-convertible bonds to be issued by the Company;
- (13) the Subscription Agreement dated 21 June 2022 entered into between the Company and each of Mr. Chiau Che Kong and Ms. Wong Chui Bing in relation to the issue of convertible bonds in an aggregate principal amount of HK\$35,400,000 at the conversion price of HK\$0.1 per conversion share; and
- (14) the Underwriting Agreement.

10. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the experts who have given opinion, letter or advice contained in this circular (the “**Experts**”):

Name	Qualification
Grand Moore Capital Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
McMillan Woods (Hong Kong) CPA Limited	Certified public accountants

As at the Latest Practicable Date, 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 letters or reports and the reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the Experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the Experts had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 30 June 2022, being the date to which the latest published audited accounts of the Company were made up.

11. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, underwriting commission (assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and underwriting all unsubscribed Rights Shares by the Underwriter), printing, registration, translation, legal and accountancy charges are estimated to be up to approximately HK\$1.9 million, which are payable by the Company.

12. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE**Board of Directors***Executive Directors:*

Ms. Chan Yuk Foebe (*Chairman and Chief Executive Officer*)

Mr. Gao Ran (*Vice-chairman*)

Mr. Law Tze Ping Eric

Non-executive Director:

Mr. Liu Yangyang

Independent non-executive Directors:

Mr. Ma Wing Yun Bryan

Mr. Tam Ching Ho

Mr. Hau Chi Ki

Audit committee

Mr. Ma Wing Yun Bryan (*Chairman*)

Mr. Tam Ching Ho

Mr. Hau Chi Kit

Nomination committee

Ms. Chan Yuk Foebe (*Chairman*)

Mr. Ma Wing Yun Bryan

Mr. Tam Ching Ho

Mr. Hau Chi Kit

Remuneration committee

Mr. Ma Wing Yun Bryan (*Chairman*)

Mr. Tam Ching Ho

Mr. Hau Chi Kit

Registered office

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

Head office and principal place of business

Room 4007, 40/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Authorised representatives

Ms. Chan Yuk Foebe

Mr. Law Tze Ping Eric

Company secretary

Mr. Ma Kin Ling

Share registrar in Hong Kong	Tricor Tengis Limited 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong
Principal bankers	Bank of China (Hong Kong) Limited Bank of China Tower 1 Garden Road Central Hong Kong Agricultural Bank of China No. 462 Zhong Yang Road Heihe City Heilongjiang Province PRC
Auditors and reporting accountants	McMillan Woods (Hong Kong) CPA Limited <i>Certified Public Accountants</i> 24/F, Siu On Centre 188 Lockhart Road Wanchai, Hong Kong
Legal adviser to the Company as to Hong Kong laws	Michael Li & Co. 901 & 19th Floor, Prosperity Tower 39 Queen's Road Central Central, Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Grand Moore Capital Limited Unit 1401, 14/F, Lippo Sun Plaza 28 Canton Road, Tsim Sha Tsui Kowloon, Hong Kong
Underwriter	Koala Securities Limited Units 01-02, 13/F, Everbright Centre 108 Gloucester Road Wanchai, Hong Kong

13. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Ms. Chan Yuk Foebe, aged 53, is the chairman and chief executive officer of the Group and joined the Group as an executive Director in January 2004. Ms. Chan is responsible for the overall management and business development of the Group. Ms. Chan holds a bachelor's degree in Accountancy from the Queensland University of Technology in

Australia. Ms. Chan has more than 10 years of experience in the areas of corporate finance and management. Save as disclosed herein, Ms. Chan did not hold any other directorships in listed public companies in the last three years. Ms. Chan was appointed as the Chairman and a member of nomination committee of the Company (the “**Nomination Committee**”) with effect from 2 February 2012.

Mr. Gao Ran, aged 31, is an executive Director and vice-chairman. He is currently the chairman of Shenzhen Global Fund Management Co., Ltd.* (深圳市全球基金管理有限公司). He was the non-executive director of Lapco Holdings Limited (Stock Code: 8472), a company listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) until 20 November 2020. He has extensive experience in fund investment and asset management, corporate strategy, corporate finance and business development and management. Mr. Gao was appointed as an executive Director with effect from 23 July 2020.

From June 2013 to September 2015, he was the chairman of Changchun Houde Real Estate Brokerage Co., Ltd.* (長春市厚德房地產經紀有限公司). He also served as the chairman of Changchun Haizhong Real Estate Brokerage Co., Ltd.* (長春市海眾房地產經紀有限公司) from October 2011 to May 2012.

Mr. Gao was recognized as “Top Ten Leaders in China’s Financial Industry”* (中國金融行業十佳領軍人物), “Outstanding Leader of Jilin Province”* (吉林省傑出領軍人物) and “Top Ten Outstanding Youth in Jilin Province”* (吉林省十大傑出青年) and “First Person in Venture Capital after 90s”* (90後風險投資第一人) by Beijing General Evaluation and Certification Center* (北京鑒優品質量認證中心) and Beijing Evaluation and Assessment Center for Enterprise Creditability* (北京審信核信企業信用評估中心), in 2017, 2018 and 2019 respectively.

Mr. Gao is currently pursuing an executive master of business administration degree with The PBC School of Finance of Tsinghua University (清華大學五道口金融學院).

Mr. Law Tze Ping Eric, aged 42, is an executive Director. Prior to joining the Group, Mr. Law worked as a business consultant and provided consultancy services for listed and non-listed companies in Hong Kong. Save as disclosed herein, Mr. Law did not hold any other directorships in listed public companies in the last three years. Mr. Law was appointed as an executive Director with effect from 3 March 2015.

Non-executive Director

Mr. Liu Yangyang, aged 27, is a non-executive Director. He is currently the director of China business division of Cornerstone Financial Holdings Limited, a listed company on the GEM of the Stock Exchange (stock code: 8112). He is vastly experienced in project investment and asset management, sales and market development and management. From November 2019 to April 2020, he served as the chairman of Shen Zhen AVIC Int’l Corporate Management Co., Ltd.* (深圳市中航國際企業管理有限公司). From July 2018 to

September 2019, he also served as the business director of Shen Zhen Catic Taikee Co., Ltd.* (深圳市中航大記股份有限公司). Mr. Liu is currently enrolled in the public affair management programme of the Communication University of China.

Independent non-executive Directors

Mr. Ma Wing Yun Bryan, aged 57, is an independent non-executive Director and is also the chairman of the audit committee of the Company (the “**Audit Committee**”) and a member of each of the remuneration committee of the Company (the “**Remuneration Committee**”) and the Nomination Committee. Mr. Ma is the finance director of Union Sun International Group Limited, a non-listed company with affiliates dealing in property development in the PRC. He was an independent director of Celestial Nutrifoods Limited (the shares of which are listed on the main board of Singapore Exchange Securities Trade Limited (the “**Singapore Exchange**”)) until 18 July 2011. He has approximately 20 years of experience in the areas of audit, financial management and operational management. Mr. Ma is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Ma was appointed as an independent non-executive Director in February 2001.

Mr. Tam Ching Ho, aged 51, appointed on 30 June 2007, is an independent non-executive Director and is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Tam is a certified public accountant (practising) registered with the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). He has worked in a reputable international accounting firm for about eight years and specialised in providing assurance services for pre-listing, listed and multinational companies. He has also held senior positions in several companies, including as a financial controller of a company listed on the main board of the Stock Exchange and another company listed on the main board of the Singapore Exchange for a total of about seven years. Mr. Tam has accumulated extensive experiences in corporate finance and administration, listing compliance, investor relations, accounting and auditing. Mr. Tam holds a bachelor’s degree of arts with honors in accountancy. He is an associate member of the HKICPA and a fellow member of The Association of Chartered Certified Accountants. Mr. Tam is also currently an independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited (Stock Code: 682), the shares of which are listed on the main board of the Stock Exchange. Save as disclosed herein, Mr. Tam did not hold any other directorships in listed companies in the last three years.

Mr. Hau Chi Kit, aged 50, appointed on 18 December 2013, is an independent non-executive Director and also a member of each of the Audit committee, the Remuneration Committee and the Nomination Committee. He was a barrister-at-law in private practice in Hong Kong from 2001 to 2008. Prior to becoming a barrister, he worked at the Securities and Futures Commission. Mr. Hau is currently a solicitor and is an independent non-executive director of Zhongzheng International Company Limited (formerly known as “e-Force Holdings Limited”) (Stock Code: 943), a company listed on the Main Board of the Stock Exchange and hmvod Limited (formerly known as “Trillion Grand Corporate Company Limited”) (Stock Code: 8103), a company listed on GEM of the

Stock Exchange, respectively. Mr. Hau was an independent non-executive director of Code Agriculture (Holdings) Limited (currently known as “Farnova Group Holdings Limited”), a company listed on GEM of the Stock Exchange (Stock Code: 8153) until 18 July 2019. Save as disclosed herein, Mr. Hau did not hold any other directorships in listed companies in the last three years.

Senior Management

Mr. Ma Kin Ling, aged 40, is the chief financial officer and the company secretary of the Group. Mr. Ma is responsible for the financial reporting and company’s secretarial functions of the Group. Mr. Ma graduated from City University of Hong Kong with a bachelor’s degree in Accountancy and Law. Mr. Ma joined the Group in May 2016. Prior to joining the Group, he worked in a reputable international accounting firm and has over 10 years of professional experience in accounting, auditing and financial management. Mr. Ma is a member of the HKICPA. Mr. Ma is also an independent non-executive director of SunCorp Technologies Limited (Stock Code: 1063) and Wisdom Wealth Resources Investment Holding Group Limited (formerly known as “Hong Kong Finance Investment Holding Group Limited”) (Stock Code: 7), the shares of which are listed on the Main Board of the Stock Exchange, respectively. Save as disclosed herein, Mr. Ma did not hold any other directorships in listed companies in the last three years.

14. AUDIT COMMITTEE

As at the Latest Practicable Date, the Audit Committee comprised all of the independent non-executive Directors, namely Mr. MA Wing Yun Bryan (the chairman of the Audit Committee), Mr. Tam Ching Ho and Mr. Hau Chi Kit. The background, directorship and past directorship (if any) of each of the members of the Audit Committee are set out in the section headed “13. Particulars of the Directors and senior management” in this appendix. The primary role and function of the Audit Committee are to oversee the relationship with the external auditors, to review the Group’s interim results and annual results and to monitor compliance with statutory and listing requirements.

15. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.chinazenith.com.hk/>) from the date of this circular up to and including the date of the SGM:

- (a) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 53 to 86 of this circular;
- (b) the accountant’s report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;

- (c) the material contracts referred to in the paragraph headed “9. Material Contracts” of this appendix; and
- (d) the written consent referred to in paragraph headed “10. Qualification and consent of Experts” of this appendix.

16. MISCELLANEOUS

- (a) The business address of all directors and senior management of the Company is Room 4007, 40/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (b) As at the Latest Practicable Date, to the best knowledge of the Directors, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (c) As at the Latest Practicable Date, the Group had no exposure to foreign exchange liabilities.
- (d) In the event of any inconsistency, the English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

* *For identification purpose only*

NOTICE OF SGM



China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 362)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of China Zenith Chemical Group Limited (the “**Company**”) will be held at 22/F, Euro Trade Centre, 13–14 Connaught Road Central, Central, Hong Kong on Wednesday, 14 December 2022 at 4:30 p.m. (or immediately after the conclusion of the annual general meeting convened on the same day and at the same place) for the purpose of considering and, if thought fit, passing with or without amendments the following resolutions of the Company. Unless otherwise defined, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 21 November 2022 (the “**Circular**”).

SPECIAL RESOLUTION

1. “**THAT**, subject to and conditional upon, (i) the Stock Exchange granting the listing of, and the permission to deal in, the Adjusted Shares; and (ii) compliance with Section 46(2) of the Companies Act to effect the Capital Reorganisation, with effect from the second business day after the date on which this resolution is passed by the Shareholders, being a day on which the Shares are traded on the Stock Exchange:
 - (a) every twenty (20) Existing Shares shall be consolidated into one (1) Consolidated Share;
 - (b) the issued share capital of the Company shall be reduced by (i) rounding down the total number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (ii) cancelling the paid up capital of the Company to the extent of HK\$1.9 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share shall be reduced from HK\$2.0 to HK\$0.1;
 - (c) each of the authorised but unissued Consolidated Shares shall be divided into twenty (20) Adjusted Shares of HK\$0.1 each;
 - (d) the entire amount standing to the credit of the Share Premium Account shall be reduced to nil;

NOTICE OF SGM

- (e) the transfer of all the credits arising from the Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company within the meaning of the Companies Act which shall be applied to reduce the accumulated losses of the Company or be applied by the Board in any other manner in accordance with the byelaws of the Company and all applicable laws of Bermuda from time to time without further authorisation from the Shareholders; and
- (f) any one Director be and is authorised to approve, sign and execute such documents, including under the seal of the Company, and take any and all steps, and to do and/or procure to be done any and all acts and things which in his/her opinion may be necessary, desirable or expedient to implement and carry into effect this resolution, including, without limitation, to aggregate, sell and retain for the benefit of the Company all fractional Adjusted Shares to which each Shareholder is otherwise entitled.”

ORDINARY RESOLUTION

2. **“THAT:**

- (a) subject to and conditional upon the passing of the resolution numbered 1, the Rights Issue and the transactions contemplated thereunder be and are hereby approved;
- (b) the allotment and issue of up to 397,355,377 new Adjusted Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date) pursuant to an offer by way of rights to the Shareholders at the subscription price of HK\$0.20 per Rights Share on the basis of five (5) Rights Shares for every two (2) Adjusted Shares held by the Qualifying Shareholders whose names appear on the register of members of the Company on the Record Date, as described in further details in the Circular (a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification), save for the Non-Qualifying Shareholders whose addresses as of the Record Date are outside of Hong Kong (if any) to whom the Directors, based on legal opinions to be provided by the legal advisers to the Company, consider it necessary or expedient not to offer the Rights Shares on account either of the legal restrictions under the laws of the relevant place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s), and on and subject to such terms and conditions as may be determined by the Directors, be and is hereby approved, confirmed and ratified;

NOTICE OF SGM

- (c) the Underwriting Agreement dated 18 October 2022 and entered into between the Company and Koala Securities Limited (a copy of which has been produced to the Meeting marked “B” and signed by the chairman of the Meeting for the purpose of identification), in relation to the underwriting of the Rights Shares not subscribed by the Qualifying Shareholders and/or the Rights Share(s) which would otherwise has/have been provisionally allotted to the Non-Qualifying Shareholder(s) in nil-paid form that has/have not been sold by the Company on a best effort basis, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (d) the board of Directors or a committee thereof be and is hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to any Non-Qualifying Shareholders, and to do all such acts and things or make such arrangements as it considers necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (e) any one or more Directors be and is/are hereby authorised to do all such acts, deeds and things, to sign and execute all such further documents or deeds and to take such steps as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient to carry out or to give effect to or in connection with the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder.”

By Order of the Board
China Zenith Chemical Group Limited
Chan Yuk Foebe
Chairman and Executive Director

Hong Kong, 21 November 2022

Registered office:
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

*Head office and principal place of
business in Hong Kong:*
Room 4007, 40/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

NOTICE OF SGM

Notes:

1. Members of the Company whose names appear on the register of members maintained by the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong at 4:30 p.m. on Thursday, 8 December 2022 shall qualify for attending and voting at the SGM. The register of members of the Company will be closed from Friday, 9 December 2022 to Wednesday, 14 December 2022 (both days inclusive), during which period no share transfer will be registered. In order to qualify to attend and vote on the proposed resolution set out in this notice, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch Share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Thursday, 8 December 2022.
2. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxies (if he is a holder of more than one share) to attend and vote on his behalf. A proxy needs not be a member of the Company.
3. The instrument appointing a proxy and the power of attorney or other, if any, under which it is signed, or a notorially certified copy of such power of attorney or other authorisation document(s), must be lodged with the Company's branch Share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time fixed for holding the SGM or any adjournment thereof.
4. Completion and return of the proxy form will not preclude shareholders of the Company from attending and voting in person at the SGM, or any adjourned meeting, should they so wish.
5. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of shareholders at the SGM will be taken by poll except where the chairman of the SGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Company will announce the results of the poll in the matter prescribed under Rule 13.39(5) of the Listing Rules.

As at the date hereof, the Board comprises Ms. Chan Yuk Foebe, Mr. Gao Ran, Mr. Law Tze Ping Eric as executive Directors, Mr. Liu Yangyang as non-executive Director and Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit as independent non-executive Directors.