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China Dredging Environment Protection Holdings Limited

中國疏浚環保控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 871)

- (1) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED CHANGE IN BOARD LOT SIZE;
(3) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF
NEW CONSOLIDATED SHARES BY THE SUBSTANTIAL SHAREHOLDER;
(4) PROPOSED SHARE ISSUANCE UNDER SPECIFIC MANDATE;
AND
(5) APPLICATION FOR WHITEWASH WAIVER**

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



**Alliance Capital Partners Limited
同人融資有限公司**

PROPOSED SHARE CONSOLIDATION

The Company proposes to implement the Share Consolidation on the basis that every two (2) issued and unissued Existing Shares of HK\$0.10 each be consolidated into one (1) Consolidated Share of HK\$0.20. The Share Consolidation is conditional upon, among other things, the approval by the Shareholders at the EGM.

Shareholders and potential investors should note that the Share Consolidation is conditional upon the satisfaction of the conditions as set out in the paragraph headed “Conditions of the Share Consolidation” in this announcement. Accordingly, the Share Consolidation may or may not proceed.

PROPOSED CHANGE IN BOARD LOT SIZE

As at the date of this announcement, the Existing Shares are traded on the Stock Exchange in the board lot size of 1,000 Existing Shares. The Board proposes to change the board lot size for trading on the Stock Exchange from 1,000 Existing Shares to 20,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

SUBSCRIPTION OF NEW CONSOLIDATED SHARES

On 14 January 2021 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 508,240,000 new Consolidated Shares at the Subscription Price of HK\$0.20 per Subscription Share (which is equivalent to the par value of the Consolidated Shares) to the Subscriber.

The Subscription Shares represent (i) approximately 51.05% of the issued share capital of the Company as at the date of this announcement (assuming the Share Consolidation having become effective); and (ii) approximately 33.80% of the then issued share capital of the Company as enlarged by the Subscription Shares (assuming there will be no other change in the number of issued Shares between the date of this announcement and the date of Completion, save for the Share Consolidation and the issue and allotment of the Subscription Shares).

IMPLICATIONS OF THE LISTING RULES AND THE TAKEOVERS CODE

The Subscriber is a substantial Shareholder and an executive Director, and therefore a connected person under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the date of this announcement, the Subscriber and parties acting in concert with him (namely Ms. Zhou Shuhua, the spouse of the Subscriber and Wangji Limited, which is wholly-owned by the Subscriber) are interested in an aggregate of 387,159,000 Existing Shares, representing approximately 19.44% of the existing total issued share capital of the Company. Upon Completion, the shareholding of the Subscriber and parties acting in concert with him will increase from approximately 19.44% to approximately 46.67% of the then issued share capital of the Company as enlarged by the Subscription Shares (assuming there will be no other change in the number of issued Shares between the date of this announcement and the date of Completion, save for the Share Consolidation and the issue and allotment of the Subscription Shares), thereby triggering an obligation on the Subscriber under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by him or parties acting in concert with him.

APPLICATION FOR WHITEWASH WAIVER

An application will be made by the Subscriber to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. As obtaining the Whitewash Waiver is one of the conditions precedent to the Subscription Agreement and such condition is not waivable, the Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or is not approved by the Independent Shareholders.

FORMATION OF THE INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. The Company has appointed Alliance Capital Partners Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL

The EGM will be convened for the purpose of considering and, if thought fit, approving, among other things, the Share Consolidation, the Subscription Agreement and the transactions contemplated thereunder, including the grant of Specific Mandate, and the Whitewash Waiver. No Shareholder is involved or interested in or has a material interest in the Share Consolidation and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting in favour of the resolution to approve the Share Consolidation and the transactions contemplated thereunder at the EGM. Other than the Subscriber and parties acting in concert with him (namely Ms. Zhou Shuhua, the spouse of the Subscriber and Wangji Limited, which is wholly-owned by the Subscriber), there is no other Shareholder that is interested in or involved in the Subscription or the Whitewash Waiver, and therefore no other Shareholder is required to abstain from voting for the resolution to approve the Subscription and the Whitewash Waiver at the EGM.

A circular containing (i) details of the Share Consolidation and the Change in Board Lot Size; (ii) details of the Subscription Agreement and the Whitewash Waiver; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver; (iv) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver; and (v) a notice of the EGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules and the Takeovers Code.

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares and the Subscription Shares on the Main Board of the Stock Exchange.

As the Subscription Agreement may or may not complete, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

PROPOSED SHARE CONSOLIDATION

The Board proposes to implement the Share Consolidation on the basis that every two (2) issued and unissued Existing Shares of HK\$0.10 each be consolidated into one (1) Consolidated Share of HK\$0.20.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following conditions being satisfied:

- (a) the passing of an ordinary resolution by the Shareholders at the EGM to approve the Share Consolidation; and
- (b) the Listing Committee granting the approval for listing of, and permission to deal in the Consolidated Shares.

Subject to the satisfaction of all of the above conditions, it is expected that the Share Consolidation will become effective one clear Business Day after the date of the EGM.

Effect of the Share Consolidation

As at the date of this announcement, the authorised share capital of the Company is HK\$1,000,000,000 divided into 10,000,000,000 Shares of HK\$0.10 each, of which 1,991,283,000 Existing Shares have been allotted and issued, and are fully paid or credited as fully paid. Upon the Share Consolidation becoming effective and on the basis that the Company does not allot, issue or repurchase any Existing Shares prior thereto, the authorised share capital of the Company will become HK\$1,000,000,000 divided into 5,000,000,000 Shares of HK\$0.20 each, of which 995,641,500 Consolidated Shares will be in issue.

The Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Existing Shares as at the date of this announcement.

Other than the relevant expenses incurred, the implementation of the Share Consolidation will have no effect on the consolidated total asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Group or the interests of the Shareholders as a whole, save for any fractional Consolidated Shares (if any) to which the Shareholders would otherwise be entitled. The Board believes that the Share Consolidation will not have any material adverse effect on the financial position of the Company.

Status of the Consolidated Shares

Upon the Share Consolidation becoming effective, the Consolidated Shares shall rank *pari passu* in all respects with each other, and the Share Consolidation will not result in any change in the relative rights of the Shareholders.

Listing application

An application will be made by the Company to the Listing Committee for the listing of, and the permission to deal in, the Consolidated Shares.

Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange upon the Share Consolidation becoming effective, as well as the compliance with the stock admission requirements of the HKSCC, the Consolidated 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 Consolidated 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.

None of the Existing Shares are listed or dealt in on any other stock exchange other than the Stock Exchange, and at the time when the Share Consolidation becomes effective, the Consolidated 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.

Other Arrangements

Fractional entitlement to Consolidated Shares

Fractional Consolidated Shares, if any, will be disregarded and will not be issued to Shareholders but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefits of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Existing Shares regardless of the number of share certificates held by such holder.

Shareholders who are concerned about losing out on any fractional entitlement are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser and may wish to consider the possibility of buying or selling the Existing Shares in a number sufficient to make up an entitlement to receive a whole number of Consolidated Shares.

Odd lots trading arrangement

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares, the Company will appoint a licensed securities firm to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares. Details of the odd lots arrangement will be set out in the circular to be despatched to the Shareholders.

Holders of odd lots of the Consolidated Shares should note that the matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Shareholders who are in any doubt about the odd lots matching arrangement are recommended to consult their own professional advisers.

Exchange of share certificates

Subject to the Share Consolidation becoming effective, Shareholders may, on or after 9 March 2021 until 19 April 2021 (both days inclusive), submit share certificates of the Existing Shares (in blue colour) to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong to exchange, at the expense of the Company, for new share certificates of the Consolidated Shares on the basis of two (2) Existing Shares for one (1) Consolidated Share (in green colour), which will reflect the new board lot size of 20,000 Consolidated Shares. Thereafter, share certificates of Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) by the Shareholders for each share certificate for the Existing Shares submitted for cancellation or each new share certificate issued for the Consolidated Shares, whichever the number of certificates cancelled/issued is higher.

Nevertheless, after 4:10 p.m. on 15 April 2021, share certificates for the Existing Shares will continue to be good evidence of legal title and may be exchanged for new share certificates for the Consolidated Shares at any time but will not be accepted for trading, settlement and registration.

Shareholders and potential investors should note that the Share Consolidation is conditional upon the satisfaction of the conditions as set out in the paragraph headed "Conditions of the Share Consolidation" in this announcement. Accordingly, the Share Consolidation may or may not proceed.

PROPOSED CHANGE IN BOARD LOT SIZE

As at the date of this announcement, the Existing Shares are currently traded on the Stock Exchange in the board lot size of 1,000 Existing Shares. The Board proposes to change the board lot size for trading on the Stock Exchange from 1,000 Existing Shares to 20,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

Based on the closing price of HK\$0.090 per Existing Share as quoted on the Stock Exchange on the date of this announcement, (i) the market value per board lot of 1,000 Existing Shares is HK\$90; and (ii) the theoretical market value per board lot of 20,000 Consolidated Shares would be HK\$3,600 assuming the Share Consolidation and the Change in Board Lot Size becoming effective.

The Change in Board Lot Size will not result in change in the relative rights of the Shareholders.

REASONS FOR THE PROPOSED SHARE CONSOLIDATION AND THE PROPOSED CHANGE IN BOARD LOT SIZE

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 Stock Exchange reserves the right to require the issuer either to change the trading method or proceed with a consolidation or splitting of securities. In this regard, the Share Consolidation will enable the Company to comply with the trading requirements of the Listing Rules.

In view that the Share had been traded below HK\$0.10 in the past 12 months (based on the closing price per Share as quoted on the Stock Exchange) which is considered by the Stock Exchange as reaching the extremity of HK\$0.01, the Board proposes to implement the Share Consolidation.

The Share Consolidation will increase the nominal value of the Shares and will reduce the total number of Shares currently in issue. As such, it is expected that the Share Consolidation will bring about a corresponding upward adjustment in the trading price of the Shares.

Further, the Share Consolidation will reduce the overall transaction and handling costs of dealings in the Shares as a proportion of the market value of each board lot, since most of the banks/securities houses will charge a minimum transaction costs for each securities trade. It is hoped that this will make investing in the Shares more attractive to a broader range of investors, in particular to institutional investors whose house rules might otherwise prohibit or restrict trading in securities that are priced below a prescribed floor, and thus help to further broaden the shareholder base of the Company.

Subject to the Share Consolidation becoming effective, the Board also proposes to change the board lot size for trading from 1,000 Existing Shares to 20,000 Consolidated Shares.

Pursuant to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and updated on 1 October 2020, the expected board lot value should be greater than HK\$2,000 per board lot taking into account the minimum transaction costs for a securities trade. As at the date of this announcement, the closing price of each Existing Share is HK\$0.090, with a board lot size of 1,000 Existing Shares, the Company is trading under HK\$2,000 per board lot.

It is expected that the Share Consolidation, together with the Change in Board Lot Size, will increase the value of each board lot of the Consolidated Shares to more than HK\$2,000.

Given the above reasons, the Company considers that the Share Consolidation and the Change in Board Lot Size are justifiable despite the potential costs and negative impact arising from the creation of odd lots to Shareholders. Accordingly, the Directors consider that the Share Consolidation and the Change in Board Lot Size are beneficial to and in the interests of the Company and the Shareholders as a whole.

EXPECTED TIMETABLE

The expected timetable for the implementation of the Share Consolidation and the Change in Board Lot Size is as follows:

Event	Time and date
Expected date of despatch of the circular with notice and form of proxy of the EGM	Wednesday, 3 February 2021
Latest date and time for lodging transfer documents in order to qualify for attending and voting at the EGM	4:30 p.m. on Monday, 1 March 2021
Closure of register of members for determining the entitlement to attend and vote at the EGM .	Tuesday, 2 March 2021 to Friday, 5 March 2021 (both days inclusive)
Latest date and time for lodging forms of proxy for the EGM	3:00 p.m. on Wednesday, 3 March 2021

Event	Time and date
Date and time of the EGM	3:00 p.m. on Friday, 5 March 2021
Announcement of poll results of the EGM	Friday, 5 March 2021

The following events are conditional upon the fulfilment of the conditions for the implementation of the Share Consolidation as set out in the paragraph headed “Conditions of the Share Consolidation” above:

Event	Time and date
Effective date of the Share Consolidation	Tuesday, 9 March 2021
First day of free exchange of existing share certificates for new share certificates for the Consolidated Shares	Tuesday, 9 March 2021
Commencement of dealings in the Consolidated Shares	9:00 a.m. on Tuesday, 9 March 2021
Original counter for trading in the Existing Shares in board lots of 1,000 Existing Shares (in the form of existing share certificates) temporarily closes	9:00 a.m. on Tuesday, 9 March 2021
Temporary counter for trading in the Consolidated Shares in board lots of 500 Consolidated Shares (in the form of existing share certificates) opens	9:00 a.m. on Tuesday, 9 March 2021
Original counter for trading in the Consolidated Shares in board lots of 20,000 Consolidated Shares (in the form of new share certificates) re-opens	9:00 a.m. on Tuesday, 23 March 2021
Parallel trading in the Consolidated Shares (in the form of new share certificates and existing share certificates) commences	9:00 a.m. on Tuesday, 23 March 2021

Event	Time and date
Designated broker starts to stand in the market to provide matching services for odd lots of the Consolidated Shares	9:00 a.m. on Tuesday, 23 March 2021
Temporary counter for trading in the Consolidated Shares in board lots of 500 Consolidated Shares (in the form of existing share certificates) closes	4:10 p.m. on Thursday, 15 April 2021
Parallel trading in the Consolidated Shares (in the form of new share certificates and existing share certificates) ends.	4:10 p.m. on Thursday, 15 April 2021
Designated broker ceases to stand in the market to provide matching services for odd lots of the Consolidated Shares	4:10 p.m. on Thursday, 15 April 2021
Latest date and time for free exchange of existing share certificates for new share certificates for the Consolidated Shares.	4:30 p.m. on Monday, 19 April 2021

All times and dates in this announcement refer to Hong Kong local times and dates. The expected timetable set out above is indicative only and may be subject to change. Further announcement(s) will be made as and when appropriate.

The Share Consolidation is conditional upon, among other things, (i) the passing of an ordinary resolution by the Shareholders at the EGM to approve the Share Consolidation; and (ii) the Listing Committee granting the approval for listing of, and permission to deal in the Consolidated Shares. In the event that the relevant approval is not granted by the Listing Committee or approved by the Shareholders, the Share Consolidation will lapse and will not proceed.

SUBSCRIPTION OF NEW CONSOLIDATED SHARES

The Subscription Agreement

Date

14 January 2021 (after trading hours)

Parties

Issuer : the Company

Subscriber : Liu Kaijin

The Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 508,240,000 new Consolidated Shares at the Subscription Price of HK\$0.20 per Subscription Share to the Subscriber, with an aggregate consideration of HK\$101,648,000.

The Subscription Shares

The Subscription Shares represent (i) approximately 51.05% of the issued share capital of the Company as at the date of this announcement (assuming the Share Consolidation having become effective); and (ii) approximately 33.80% of the then issued share capital of the Company as enlarged by the Subscription Shares (assuming there will be no other change in the number of issued Shares between the date of this announcement and the date of Completion, save for the Share Consolidation and the issue and allotment of the Subscription Shares). With reference to the theoretical closing price of HK\$0.180 per Consolidated Share based on the closing price of HK\$0.090 per Existing Share on the Last Trading Day, the Subscription Shares have a market value of HK\$91,483,200, and the aggregate nominal value of the Subscription Shares is HK\$101,648,000 based on the par value of the Consolidated Shares of HK\$0.20.

Subscription Price

The Subscription Price of HK\$0.20 per Subscription Share (which is equivalent to the par value of the Consolidated Shares), represents:

- (a) a premium of approximately 11.11% to the theoretical closing price of HK\$0.180 per Consolidated Share based on the closing price of HK\$0.090 per Existing Share on the Last Trading Day and taking into account the effect of the Share Consolidation;

- (b) a premium of approximately 17.65% to the theoretical average closing price of HK\$0.170 per Consolidated Share based on the average closing price of HK\$0.085 per Existing Share for the last five consecutive trading days up to and including the date of the Last Trading Day and taking into account the effect of the Share Consolidation;
- (c) a premium of approximately 23.30% to the theoretical average closing price of approximately HK\$0.162 per Consolidated Share based on the average closing price of approximately HK\$0.081 per Existing Share for the last ten trading days up to and including the Last Trading Day and taking into account the effect of the Share Consolidation;
- (d) a discount of approximately 87.63% to the Group's theoretical net asset per Consolidated Share of approximately HK\$1.617 based on the net asset per Existing Share as at 31 December 2019 of approximately HK\$0.808, which is based on the Company's audited consolidated net asset value attributable to the Shareholders of approximately RMB1,416,869,000 as at 31 December 2019 and the 1,991,283,000 Existing Shares in issue as at the date of this announcement; and
- (e) a discount of approximately 86.95% to the Group's theoretical net asset per Consolidated Share of approximately HK\$1.533 based on the net asset per Existing Share as at 30 June 2020 of approximately HK\$0.766, which is based on the Company's unaudited consolidated net asset value attributable to the Shareholders of approximately RMB1,343,078,000 as at 30 June 2020 and the 1,991,283,000 Existing Shares in issue as at the date of this announcement.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to recent market prices and par value of the Consolidated Shares. The Directors (excluding (i) the Subscriber and Ms. Zhou Shuhua (who is the spouse of the Subscriber) who are required to abstain from voting on the Board resolutions in relation to the Subscription Agreement; and (ii) the Independent Board Committee whose opinion will be provided after taking into consideration of the advice from the Independent Financial Adviser) consider that the Subscription Price is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Conditions precedent

Completion is conditional upon the fulfillment of the following conditions:

- (a) the passing of the resolution(s) at the EGM by the Independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including the granting of the Specific Mandate to allot and issue the Subscription Shares and the Whitewash Waiver;
- (b) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Subscription Shares on the Main Board of the Stock Exchange and such permission not having been revoked or withdrawn;
- (c) the Executive granting the Whitewash Waiver to the Subscriber;
- (d) the Company not having received written notice from the Stock Exchange indicating that the listing of the Shares on the Stock Exchange would be suspended, revoked or withdrawn immediately after the Completion due to the Subscription Agreement and/or the transactions contemplated thereunder;
- (e) the representations, warranties and undertakings given by the Company under the Subscription Agreement remaining true and accurate in all material respects;
- (f) the Company having fulfilled its obligations under the Subscription Agreement in all material respects;
- (g) the representations, warranties and undertakings given by the Subscriber under the Subscription Agreement remaining true and accurate in all material respects;
- (h) the Subscriber having fulfilled its obligations under the Subscription Agreement in all material respects; and
- (i) the Share Consolidation and the Change in Board Lot Size having become effective.

As at the date of this announcement, save for the approvals and/or filings required as set out in paragraphs (a), (b), (c) and (i) above, the Company is not aware of any material consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver required in relation to the Subscription Agreement and/or the transactions contemplated thereunder which must be obtained by the Company on or before Completion.

The conditions set out in paragraphs (e) and (f) above may be waived by the Subscriber, while the conditions set out in paragraphs (g) and (h) may be waived by the Company. Save as aforementioned, none of the conditions precedent can be waived by any parties to the Subscription Agreement. In the event that the conditions are not

fulfilled or waived (as the case may be) on or before 5:00 p.m. of the Long Stop Date (or such later date as may be agreed between the Company and the Subscriber), the Subscription Agreement shall lapse and all the rights and obligations thereunder shall cease, save for any rights or obligations which may accrue prior to the date of such lapse or any liabilities for any antecedent breaches thereof. The Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or, if so granted by the Executive but not approved by the Independent Shareholders.

Completion

Subject to the conditions having been fulfilled or waived (if applicable), the Completion will take place on the second (2nd) Business Day following the day on which the last of conditions has been fulfilled (or waived, as the case may be), and in any event not later than the Long Stop Date (or such other date as may be agreed by the Company and the Subscriber in writing).

On the date of the Completion, the Subscriber shall pay to the Company the total consideration of HK\$101,648,000 for the subscription of the Subscription Shares and the Subscription Shares shall be allotted and issued to the Subscriber free from all Encumbrances and ranking *pari passu* with all the Consolidated Shares in issue in all respects including the right to any dividends or distributions made or declared thereafter.

Payment terms

The Subscriber shall pay the total Subscription Price of HK\$101,648,000 (or RMB equivalent) by way of bank wire transfer on the date of Completion.

Lock-up undertakings

The Subscriber undertakes to and covenants with the Company that, unless in compliance with the requirements of the Listing Rules, the Subscriber shall not, in the period commencing on the date of Completion and ending on the date which is 6 months from the date of Completion, dispose of, or enter into any agreement to dispose of or otherwise create any encumbrances in respect of, any of the Subscription Shares.

Specific mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

REDEMPTION OF THE 2016 BONDS

As disclosed in the announcement of the Company dated 3 December 2020, the redemption amount of the 2016 Bonds has been amended to be HK\$352,446,870.29 but the Company shall be deemed to have paid the redemption amount of the 2016 Bonds in full if the Company pays or procures the payment to the Bondholder or its affiliate a sum of RMB equivalent of HK\$98,359,241 on or before 31 March 2021. To the best of the Directors knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, the Bondholder is not a Shareholder.

The redemption will be paid out of the proceeds from the Subscription.

Pursuant to the terms and conditions of the 2016 Bonds and as disclosed in the announcement of the Company dated 15 November 2016, all conversion rights attached to the 2016 Bonds has been cancelled since 8 November 2016.

APPLICATION FOR LISTING

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares and the Subscription Shares on the Main Board of the Stock Exchange.

BACKGROUND OF THE GROUP, THE COMPANY AND THE SUBSCRIBER

The Group is primarily engaged in dredging business, which can be divided into three main operating and reportable segments, namely, (i) capital and reclamation dredging business; (ii) environmental protection dredging and water management business; and (iii) other works operated in marine sites such as hoisting wind power equipment, installing major parts of docks and bridges, as well as laying underwater pipelines and salvaging. In addition, the Group engaged in property management business in respect of managing Xingyu International Houseware Plaza (formerly known as Easyhome Yancheng Shopping Mall).

The Company is a company incorporated in the Cayman Islands with limited liability and is principally engaged in the business of investment holding.

The Subscriber is a substantial Shareholder, the chairman of the Company and an executive Director. He is the founder of the Group and has over 20 years of experience in the dredging industry in the PRC. He is primarily responsible for overseeing the Group's daily operations and planning of its business strategies.

Based on the information made available to the Company, as at the date of this announcement, the Subscriber and parties acting in concert with him (namely Ms. Zhou Shuhua, the spouse of the Subscriber and Wangji Limited, which is wholly-owned by the Subscriber) are interested in an aggregate of 387,159,000 Existing Shares, representing approximately 19.44% of the existing total issued share capital of the Company.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The gross proceeds from the Subscription are expected to be approximately HK\$101.6 million in aggregate. After deducting related professional fees and all related expenses which will be borne by the Company in relation to the Subscription, the net proceeds of the Subscription will amount to approximately HK\$99.6 million. The net proceeds of approximately HK\$98.4 million from the Subscription will be used to fully redeem the 2016 Bonds and the remaining balance of approximately HK\$1.2 million will be used as general working capital of the Company.

The Board has also considered other ways of fund raising such as bank borrowings, placing of new shares, rights issue or open offer.

Bank borrowings in the PRC generally depends on a company's financial condition. Since 2015, the Group's income has been declining. Thus, banks in the PRC have been reducing their loan scales to the Group. With the substantial losses in the two recent financial years, the Group is unable to obtain further financing from the PRC banks to repay the 2016 Bonds.

As regards other types of equity financings such as a rights issue or an open offer, the Board considers that these types of equity financings would result in less favourable terms to the Company than the Subscription as they will incur extra transaction costs including but not limited to underwriting commission and additional costs for the preparation of listing documents. Such corporate exercises would involve a relatively more time-consuming process which may result in the Company being subject to the adverse effects of the current volatile market, thereby increasing the uncertainties in being able to raise funds in time to repay the 2016 Bonds which will become due in March 2021.

For placing of new shares, the Directors consider that it is difficult to procure the subscription of such a large amount of Shares from a placee, given the relatively low trading volume of the Shares in the past. The Company attempted to conduct a placing of Shares in 2017 but it did not proceed to completion as a result of not being able to secure enough placees. Furthermore, the Subscription, if approved by the Independent Shareholders in the EGM is to be done at a Subscription Price with a premium. The Directors consider it difficult to procure placees who are willing to subscribe for the Shares under such circumstances as the placees could purchase the Shares in the open market at a market price, which is lower than the Subscription Price of HK\$0.20 per Subscription Share.

IMPLICATIONS OF THE LISTING RULES AND THE TAKEOVERS CODE

The Subscriber is a substantial Shareholder and an executive Director, and therefore a connected person under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Upon Completion, the shareholding of the Subscriber and parties acting in concert with him (namely Ms. Zhou Shuhua, the spouse of the Subscriber and Wangji Limited, which is wholly-owned by the Subscriber) will increase from approximately 19.44% to approximately 46.67% of the then issued share capital of the Company as enlarged by the Subscription Shares (assuming there will be no other change in the number of issued Shares between the date of this announcement and the date of Completion, save for the Share Consolidation and the issue and allotment of the Subscription Shares), thereby triggering an obligation on the Subscriber under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by him or parties acting in concert with him, unless the Whitewash Waiver is granted by the Executive. In this regard, the Subscriber would make an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders of the Subscription and the Whitewash Waiver at the EGM by way of poll.

Application for Whitewash Waiver

An application will be made by the Subscriber to the Executive for the granting of the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among others, (i) the approval by at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM by way of poll in respect of the Subscription. As obtaining the Whitewash Waiver is one of the conditions precedent to the Subscription Agreement and such condition is not waivable, the Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or, if so granted by the Executive but not approved by the Independent Shareholders.

As at the date of this announcement, as confirmed by the Subscriber and parties acting in concert with him (namely Ms. Zhou Shuhua, the spouse of the Subscriber and Wangji Limited, which is wholly-owned by the Subscriber), other than 387,159,000 Existing Shares as disclosed in the section headed "EFFECT ON THE

SHAREHOLDING OF THE COMPANY” in this announcement and all the transactions contemplated under the Subscription Agreement as disclosed herein, neither the Subscriber nor any parties acting in concert with him:

- (a) has acquired or entered into any agreement or arrangement to acquire any voting rights in the Company within the six months prior to the date of this announcement;
- (b) owns any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company;
- (c) has any arrangement as referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) or contracts with any other parties in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company which might be material to the Subscription Agreement, the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver;
- (d) has received any irrevocable commitment to vote for the resolution approving the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver;
- (e) has any agreements or arrangements to which the Subscriber or parties acting in concert with it is a party which relate to the circumstances in which the Subscriber or parties acting in concert with it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver;
- (f) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (g) has entered into any understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Subscriber or parties acting in concert with him on one hand and the Company and the Shareholders on the other hand; and
- (h) has entered into any understanding, agreement, arrangement or special deal between the Company, its subsidiaries or associated companies on one hand and any Shareholders on the other hand.

As at the date of this announcement, the Company does not believe that the Subscription gives rise to any concerns in relation to the compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this announcement, the Company will endeavour to resolve the

matter to the satisfaction of the relevant authority as soon as possible but in any event before the despatch of the circular to be issued in relation to the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription does not comply with other applicable rules and regulations.

EFFECT ON THE SHAREHOLDING OF THE COMPANY

As at the date of this announcement, the Company has 1,991,283,000 Shares in issue.

Mr. He Zongfeng (何宗峰), an employee of the Company, the grantee of share options pursuant to the share option scheme adopted by the Company on 24 May 2011 and an Independent Third Party, has exercised his share options in full (i.e. 17,000,000 share options) and was allotted 17,000,000 Existing Shares at the exercise price of HK\$0.10 per Existing Share on 11 January 2021.

As at the date of this announcement, the Company has no other outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares.

The following table illustrates the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the Share Consolidation having become effective; and (iii) immediately after the allotment and issue of the Subscription Shares and the Share Consolidation having become effective (assuming no other change in the issued share capital between the date of this announcement and the date of Completion):

Shareholders	Shareholding as at the date of this announcement		Immediately after the Share Consolidation having become effective		Immediately after the allotment and issue of the Subscription Shares and the Share Consolidation having become effective	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
The Subscriber and parties acting in concert with him (Note 1)	387,159,000	19.44	193,579,500	19.44	701,819,500	46.67
Public Shareholders						
Yuan Xiangbing	191,917,000	9.64	95,958,500	9.64	95,958,500	6.38
Jiangsu Baisite Environment Engineering Co., Ltd (Note 2)	148,180,000	7.44	74,090,000	7.44	74,090,000	4.93
Other public Shareholders	<u>1,264,027,000</u>	<u>63.48</u>	<u>632,013,500</u>	<u>63.48</u>	<u>632,013,500</u>	<u>42.03</u>
Total (Note 3)	<u><u>1,991,283,000</u></u>	<u><u>100.00</u></u>	<u><u>995,641,500</u></u>	<u><u>100.00</u></u>	<u><u>1,503,881,500</u></u>	<u><u>100.00</u></u>

Notes:

1. 387,159,000 Existing Shares are held as to 351,600,000 Existing Shares by Wangji Limited and 35,559,000 Existing Shares by the Subscriber as beneficial owner, respectively. The Subscriber is the sole beneficial owner of Wangji Limited. Accordingly, the Subscriber is deemed to be interested in the 351,600,000 Existing Shares. Ms. Zhou Shuhua is the spouse of the Subscriber, therefore, Ms. Zhou Shuhua is deemed to be interested in all interests of the Subscriber in the Company.
2. Luck Morgan Investment Limited acts as the nominee for Jiangsu Baisite Environment Engineering Co., Ltd to hold 148,180,000 Existing Shares.
3. The percentages may not add up to 100% due to rounding.

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

In the 12-month period immediately preceding the date of this announcement, the Company has carried out the following capital raising activities:

Date of announcement	Capital raising activities	Net proceeds (HK\$)	Intended use of proceeds	Actual use of proceeds as at date of this announcement
7 April 2020 (as supplemented by the announcement dated 23 November 2020)	Issue of 191,917,000 Shares under a general mandate	18,876,000	General working capital	General working capital

Save as disclosed above, the Company has not carried out other capital raising activities during the 12 months immediately preceding the date of this announcement.

GENERAL

The EGM will be convened for the purpose of considering and, if thought fit, approving, among other things, the Share Consolidation, the Subscription Agreement and the transactions contemplated thereunder, including the grant of Specific Mandate, and the Whitewash Waiver. No Shareholder is involved or interested in or has a material interest in the Share Consolidation and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting in favour of the resolution to approve the Share Consolidation and the transactions contemplated thereunder at the EGM. Other than the Subscriber and parties acting in concert with him (namely Ms. Zhou Shuhua, the spouse of the Subscriber and Wangji Limited, which is wholly-owned by the Subscriber), there is no other Shareholder that is

interested in or involved in the Subscription or the Whitewash Waiver, and therefore no other Shareholder is required to abstain from voting for the resolution to approve the Subscription and the Whitewash Waiver at the EGM.

No Director has a material interest in the Share Consolidation which requires any of them to abstain from voting on the Board resolutions in relation to the Share Consolidation and the transactions contemplated thereunder.

Other than the Subscriber and Ms. Zhou Shuhua, the spouse of the Subscriber, no Director has a material interest in the Subscription or the Whitewash Waiver which requires any of them to abstain from voting on the Board resolutions in relation to the Subscription and the Whitewash Waiver.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

The Company has appointed Alliance Capital Partners Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

A circular containing (i) details of the Share Consolidation and the Change in Board Lot Size; (ii) details of the Subscription Agreement and the Whitewash Waiver; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver; (iv) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver; and (v) a notice of the EGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules and the Takeovers Code.

As the Subscription Agreement may or may not complete, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

“2016 Bonds”	3% convertible bonds originally due 2016 issued by the Company to the Bondholder pursuant to the conditional subscription agreement dated 28 October 2013 entered into between the Company with the Bondholder and also a deed poll dated 8 November 2013 executed by the Company as amended and supplemented from time to time by a framework agreement (as amended by a supplemental framework agreement and a second supplemental framework agreement) and also various amendment agreements to such deed poll
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder”	CITIC Capital China Access Fund Limited, being the holder of the 2016 Bonds
“Business Day”	any day (excluding Saturday) on which commercial banks generally are open for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Operational Procedures”	the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time
“Change in Board Lot Size”	the proposed change in board lot size of the Shares for trading on the Stock Exchange from 1,000 Existing Shares to 20,000 Consolidated Shares
“Company”	China Dredging Environment Protection Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Subscription

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Share(s)”	ordinary Share(s) of HK\$0.20 each immediately after the Share Consolidation having become effective
“Director(s)”	the director(s) of the Company from time to time
“EGM”	the extraordinary general meeting of the Company to be convened on Friday, 5 March 2021 for the purpose of considering and if thought fit, approving the Share Consolidation, the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver
“Encumbrances”	a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or any other type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect
“Executive”	the executive director of the Corporate Finance Division of the SFC or any delegate of the executive director
“Existing Share(s)”	ordinary Share(s) of HK\$0.10 each prior to the Share Consolidation having become effective
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	the independent committee of the Board which comprises all the independent non-executive Directors, namely Mr. Huan Xuedong, Mr. Chan Ming Sun Jonathan and Mr. Liang Zequan, established to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver
“Independent Financial Adviser”	Alliance Capital Partners Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver
“Independent Shareholder(s)”	Shareholders other than (i) the Subscriber and parties acting in concert with him, including Ms. Zhou Shuhua and Wangji Limited; (ii) those who have a material interest in the Subscription or are required by the Listing Rules to abstain from voting on the resolution approving the Subscription, the allotment and issue of the Subscription Shares and other transactions contemplated under the Subscription Agreement; and (iii) those who are involved in or interested in the Subscription and/or the Whitewash Waiver
“Independent Third Party(ies)”	a person or company who or which is, to the best of the Director’s knowledge, information and belief, having made all reasonable enquiries, not a connected person of the Group
“Last Trading Day”	13 January 2021, being the last trading day of the Shares immediately prior to the entering into of the Subscription Agreement
“Listing Committee”	has the meaning ascribed thereto under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Long Stop Date”	31 March 2021, or any other date to be agreed by the Subscriber and the Company in writing
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“SFC”	The Securities and Futures Commission of Hong Kong
“Share(s)”	the Existing Share(s) or the Consolidated Share(s), as the case may be
“Share Consolidation”	the proposed consolidation of every two (2) Existing Shares into one (1) Consolidated Share
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the EGM to grant the authority to the Board for the allotment and issue of the Subscription Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Liu Kaijin (劉開進), the chairman of the Company, an executive Director and a substantial Shareholder
“Subscription”	the subscription of the Subscription Shares by the Subscriber pursuant to the terms of the Subscription Agreement
“Subscription Price”	HK\$0.20 per Subscription Share
“Subscription Share(s)”	508,240,000 new Consolidated Shares (after the Share Consolidation having become effective) to be allotted and issued to the Subscriber pursuant to the Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time

“Whitewash Waiver”

a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscriber to make a mandatory general offer for all the issued securities of the Company not already owned, or controlled or agreed to be acquired by the Subscriber and any parties acting in concert with them under Rule 26 of the Takeovers Code which would, if the Subscription proceeds, otherwise arise as a result of the Subscription

“%”

per cent.

For the purpose of this announcement, unless otherwise indicated, the exchange rate of RMB0.8802 = HK\$1 has been used. Such an exchange rate is for illustration only and does not constitute a representation that any amount have been, could have been or may be converted at such a rate.

For and on behalf of the Board
China Dredging Environment Protection Holdings Limited
Wu Xuze
Chief Executive Officer

Hong Kong, 14 January 2021

As at the date of this announcement, the Board comprises Mr. Liu Kaijin as chairman and Executive Director; Mr. Wu Xuze as executive Director and Chief Executive Officer; Ms. Zhou Shuhua as executive Director; and Mr. Huan Xuedong, Mr. Chan Ming Sun Jonathan and Mr. Liang Zequan as independent non-executive Directors.

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