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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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 or other registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in **China Environmental Energy Investment Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank manager, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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

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### China Environmental Energy Investment Limited

中國環保能源投資有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock code: 986)

## PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE

Independent Financial Adviser to  
the Independent Board Committee and Independent Shareholders



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

A letter from the Board is set out on pages 11 to 35 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 36 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 37 to 70 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Monday, 9 August 2021. Dealings in the Rights Shares in nil-paid form are expected to take place from Friday, 20 August 2021 to Friday, 27 August 2021 (both days inclusive). If the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Friday, 20 August 2021 to Friday, 27 August 2021 (both days 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/their own professional advisers.

A notice convening the SGM to be held at 10:30 a.m. on Thursday, 5 August 2021 at Falcon Room I, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit it with Union Registrars Limited, the branch share registrar of China Environmental Energy Investment Limited in Hong Kong, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting (i.e. 10:30 a.m. on Tuesday, 3 August 2021, Hong Kong time) or any adjournment thereof.

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares and is subject to the fulfilment of conditions. Please refer to the section headed "Conditions of the Rights Issue" in this circular. Shareholders and potential investors of the Company should note that: (a) if the conditions to the Rights Issue are not satisfied, the Rights Issue will not proceed; and (b) the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders or transferees of nil-paid Rights Shares will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

16 July 2021

\* For identification purposes only

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 16 June 2021 in relation to, among other matters, the Rights Issue
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday and Sunday and any day on which “extreme conditions” caused by super typhoons is announced by the Government of Hong Kong or a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	China Environmental Energy Investment Limited (stock code: 986), a company incorporated in Bermuda whose shares are listed on the Stock Exchange
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong
“Compensatory Arrangements”	placing of the Unsubscribed Rights Shares and the ES Unsold Rights Shares by the Placing Agent on a best effort basis pursuant to the Placing Agreement in accordance with Rule 7.19(5)(b) of the Listing Rules
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“COVID-19”	novel coronavirus (COVID-19), a coronavirus identified as the cause of an outbreak of respiratory illness
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“ES Unsold Rights Share(s)”	the Rights Share(s) which would otherwise has/have been provisionally allotted to the Excluded Shareholder(s) in nil-paid form that has/have not been sold by the Company
“Excluded Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Shares to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Group”	collectively, 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”	an independent board committee of the Company comprising all the independent non-executive Directors, which has been established under the Listing Rules to advise the Independent Shareholders in respect of the Rights Issue
“Independent Financial Advisor” or “Donvex Capital”	Donvex Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue
“Independent Shareholder(s)”	any Shareholder(s) who are not required to abstain from voting at the SGM under the Listing Rules
“Independent Third Party(ies)”	person(s) who is(are) third party(ies) independent of the Company and connected persons of the Company
“Last Trading Day”	16 June 2021, being the last trading day of the Shares on the Stock Exchange immediately prior to the publishing of the Announcement

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## DEFINITIONS

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“Latest Placing Date”	16 September 2021 or such later date as the Company and the Placing Agent may agree in writing, being the latest date for the Placing Agent to place the Unsubscribed Rights Shares and/or the ES Unsold Rights Shares
“Latest Placing Time”	6:00 p.m. on the Latest Placing Date
“Latest Practicable Date”	12 July 2021, being the latest practicable date before the printing of this circular for the purpose of ascertaining certain information contained herein
“Latest Time for Acceptance”	4:00 p.m. on Wednesday, 1 September 2021, being the latest time for acceptance of the offer of and payment for the Rights Shares
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	17 September 2021 or such later date as may be agreed between the Placing Agent and the Company in writing
“Net Gain”	any premiums paid by the placees over the Subscription Price for the Unsubscribed Rights Shares and the ES Unsold Rights Shares placed by the Placing Agent under the Compensatory Arrangements
“No Action Shareholders”	Qualifying Shareholders who do not subscribe for the Rights Shares (whether partially or fully) under the PALs or their renounees, or such persons who hold any nil-paid rights at the time such nil-paid rights are lapsed
“Optionholder’s Undertaking(s)”	the undertaking (s) executed on 16 June 2021 by the holders of the Share Options, whereby each of such Share Option holders irrevocably undertake, represent and warrant to the Company that he/she will not exercise such Share Options held by him/her for the period from the date of such undertaking to the Record Date
“Overseas Letter”	a letter from the Company to the Excluded Shareholders explaining the circumstances in which the Excluded Shareholders are not permitted to participate in the Rights Issue

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## DEFINITIONS

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“Overseas Shareholder(s)”	Shareholder(s) with registered address(es) (as shown on the register of members of the Company on the Record Date) which is(are) outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) proposed to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Placee(s)”	any individuals, corporate, institutional investor(s) or other investor(s), who and whose ultimate beneficial owner(s) shall not be the Shareholder(s) and shall be the Independent Third Party(ies), procured by the Placing Agent and/or its sub-placing agent(s), who and whose ultimate beneficial owners shall not be the Shareholder(s) and shall be the Independent Third Party(ies), to subscribe for any of the Unsubscribed Rights Shares and the ES Unsold Rights Shares pursuant to the Placing Agreement
“Placing”	the offer by way of private placing of the Unsubscribed Rights Shares and the ES Unsold Rights Shares by the Placing Agent and/or its sub-placing agents(s), who and whose ultimate beneficial owners shall not be the Shareholder(s) and shall be the Independent Third Party(ies), to the Placee(s) during the Placing Period on the terms and subject to the conditions set out in the Placing Agreement
“Placing Agent”	Sorrento Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, being the placing agent appointed by the Company to place any Unsubscribed Rights Shares and the ES Unsold Rights Shares under the Compensatory Arrangements in accordance with Rule 7.19(5)(b) of the Listing Rules
“Placing Agreement”	the placing agreement dated 16 June 2021 and entered into between the Company and the Placing Agent in relation to the placing of the Unsubscribed Rights Shares and the ES Unsold Rights Shares to the Placee(s) on a best effort basis

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## DEFINITIONS

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“Placing Arrangement”	the placing arrangement for the Unsubscribed Rights Shares and the ES Unsold Rights Shares as described in the section headed “The Placing Agreement” in this circular
“Placing Period”	a period commencing from the next Business Day after the date of announcement of the number of Unsubscribed Rights Shares and the ES Unsold Rights Shares, which is expected to be Thursday, 9 September 2021, and ending at the Latest Placing Time
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be despatched to the Shareholders containing details of the Rights Issue
“Prospectus Documents”	collectively, the Prospectus and PAL
“Prospectus Posting Date”	the date of despatch of the Prospectus Documents
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date, other than the Excluded Shareholder(s)
“Record Date”	Tuesday, 17 August 2021 or such other date as may be determined by the Company, being the date for determining entitlements of Shareholders to participate in the Rights Issue
“Registrar”	Union Registrars Limited
“Rights Issue”	the proposed issue of the Rights Shares by way of rights on the basis of one (1) Rights Share for every one (1) Share held by the Qualifying Shareholders on the Record Date at the Subscription Price pursuant to the Prospectus Documents
“Rights Share(s)”	up to 624,637,750 new Shares proposed to be allotted and issued by the Company to the Qualifying Shareholders for subscription pursuant to the Rights Issue, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date

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## DEFINITIONS

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“SGM”	a special general meeting of the Company to be held and convened to consider and approve the Rights Issue, and the transactions contemplated thereunder
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Share Option Scheme”	the share option scheme of the Company adopted on 30 August 2011
“Share Options”	the share options granted by the Company pursuant to the Share Option Scheme
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.10 per Rights Share
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Unsubscribed Arrangements”	the placement of Unsubscribed Rights Shares by the Placing Agent pursuant to the terms of the Placing Agreement, details of which are set out in the section headed “Procedures in respect of the Unsubscribed Rights Shares and the ES Unsold Rights Shares, and the Compensatory Arrangements” in this circular;
“Unsubscribed Rights Shares”	Rights Shares that are not subscribed by the Qualifying Shareholders
“%”	per cent



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## PRECAUTIONARY MEASURES FOR THE SGM

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In light of the COVID-19 pandemic, and to better protect the safety and health of the Shareholders and other participants attending the SGM, the Company will implement the following precautionary measures at the venue of the SGM (the “Venue”):

1. compulsory body temperature checks will be conducted on all persons attending the SGM at the waiting area outside the Venue before they are admitted to the Venue. Any person with a body temperature of over 37.3 degree celsius, or who has any flulike symptoms, or is otherwise apparently unwell will not be admitted to the Venue;
2. all attendees must wear face masks at all times inside the Venue or at the waiting area outside the Venue;
3. all attendees of the SGM are required to fill in a travel and health declaration form to confirm that (i) he/she has no flu-like symptoms within 7 days immediately before the SGM; and (ii) within 14 days immediately before the SGM: (a) he/she has not travelled outside of Hong Kong; (b) he/she is/was not under compulsory quarantine or medical surveillance order by the Department of Health of Hong Kong; (c) he/she has not had/has close contact with confirmed case(s) and/or probable case(s) of COVID19 patient(s); and (d) he/she does/did not live with any person under home quarantine. Any person who fails to provide the required confirmation may be requested to leave or denied entry into the Venue;
4. seating at the Venue will be arranged in a manner to allow for appropriate social distancing. As a result, there may be limited capacity for Shareholders to attend the SGM. The Company may limit the number of attendees at the SGM as may be necessary to avoid over-crowding;
5. any attendee who does not follow any of the abovementioned measures will be refused admission to the Venue or requested to leave the Venue;
6. no refreshments or drinks will be served at the SGM to avoid close contact of attendees; and
7. all attendees are recommended to clean their hands with alcohol-based hand sanitizer before entering the Venue.

Shareholders are reminded that attendance at the SGM in person is not necessary for the purpose of exercising voting rights. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the SGM, and appoint the chairman of the meeting as a proxy to vote on relevant resolutions at the SGM as instructed in accordance with the relevant proxy form instead of attending the SGM in person. For details, please refer to the proxy form of the SGM.

The Company will keep monitoring the evolving COVID-19 situation and may implement additional measures which, if any, will be announced closer to the date of the SGM.

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## EXPECTED TIMETABLE

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*Set out below is the expected timetable for the Rights Issue which is indicative only and has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled:*

<b>Event</b>	<b>2021</b>
Latest time for lodging transfers of Shares to qualify for attendance and voting at the SGM . . . . .	4:00 p.m. on Thursday, 29 July
Closure of register of members of the Company for attending the SGM (both days inclusive) . . . . .	Friday, 30 July to Thursday, 5 August
Latest time for lodging forms of proxy for the purpose of the SGM . . . . .	10:30 a.m. on Tuesday, 3 August
Record date for determining attendance and voting at the SGM . . . . .	Thursday, 5 August
<b>Expected date and time of the SGM . . . . .</b>	<b>10:30 a.m. on Thursday, 5 August</b>
<b>Announcement of poll results of the SGM . . . . .</b>	<b>Thursday, 5 August</b>
Last day of dealings in Shares on a cum-rights basis . . . . .	Friday, 6 August
First day of dealings in Shares on an ex-rights basis . . . . .	Monday, 9 August
Latest time for the Shareholders to lodge transfer of Shares in order to qualify for the Rights Issue . . . . .	4:00 p.m. on Tuesday, 10 August
Closure of register of members of the Company for the Rights Issue (both dates inclusive) . . . . .	Wednesday, 11 August to Tuesday, 17 August
Record Date for determining entitlements to the Rights Issue . . . . .	Tuesday, 17 August
Register of members of the Company re-opens . . . . .	Wednesday, 18 August
Despatch of Prospectus Documents . . . . .	Wednesday, 18 August
First day of dealings in nil-paid Rights Shares . . . . .	9:00 a.m. on Friday, 20 August

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## EXPECTED TIMETABLE

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Event	2021
Latest time for splitting of PALs . . . . .	4:00 p.m. on Tuesday, 24 August
Latest time of dealings in nil-paid Rights Shares . . . . .	4:00 p.m. on Friday, 27 August
Latest time for logging transfer of nil-paid Rights Shares in order to qualify for payment of Net Gain to relevant No Action Shareholders (if any) or Excluded Shareholders (if any) . . . . .	4:00 p.m. on Wednesday, 1 September
<b>Latest time for acceptance of and payment for the Rights Shares . . . . .</b>	<b>4:00 p.m. on Wednesday, 1 September</b>
Announcement of the number of Unsubscribed Rights Shares and the ES Unsold Rights Shares subject to the Compensatory Arrangements . . . . .	Wednesday, 8 September
Commencement of placing of Unsubscribed Rights Shares and the ES Unsold Rights Shares by the Placing Agent . . . . .	Thursday, 9 September
Latest time of placing of the Unsubscribed Rights Shares and the ES Unsold Rights Shares by the Placing Agent . . . . .	Thursday, 16 September
Latest time for the Rights Issue and placing of the Unsubscribed Rights Shares and ES Unsold Rights Shares to become unconditional . . . . .	Thursday, 16 September
Announcement of results of the Rights Issue (including results of the placing of the Unsubscribed Rights Shares and the ES Unsold Rights Shares and the amount of the Net Gain per Unsubscribed Rights Share and per ES Unsold Rights Share under the Compensatory Arrangements) . . . . .	Friday, 17 September
Refund cheques, if any, to be despatched (if the Rights Issue does not proceed) . . . . .	On or before Monday, 20 September
Certificates for fully paid Rights Shares to be despatched . . . . .	Monday, 20 September

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## EXPECTED TIMETABLE

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**Event** **2021**

Commencement of dealings in fully-paid

Rights Shares . . . . . 9:00 a.m. on  
Tuesday, 21 September

Designated broker starts to stand in the market

to provide matching services for odd lots of Shares . . . . . Tuesday, 21 September

Last day for the designated broker to provide for odd lot matching . . . . . Tuesday, 12 October

Payment of Net Gain to relevant No Action Shareholders

(if any) or Excluded Shareholders (if any) . . . . . Wednesday, 13 October

All times and dates in this circular refer to Hong Kong local times and dates.

The expected timetable is subject to change, and any such change will be further announced by the Company as and when appropriate.

### **EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES**

The latest time for acceptance of and payment for the Rights Shares will not take place if:

1. typhoon signal No. 8 (or above);
2. “extreme conditions” caused by super typhoons as announced by the Government of the Hong Kong Special Administrative Region; or
3. a “black” rainstorm warning
  - (a) is/are in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
  - (b) is/are in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance does not take place on the currently scheduled date, the dates of the events subsequent to the Latest Time for Acceptance mentioned in this section above may be affected. Announcement will be made by the Company in such event.

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## LETTER FROM THE BOARD

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### China Environmental Energy Investment Limited

中國環保能源投資有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 986)**

*Executive Directors:*

Ms. Zhou Yaying

Mr. Wei Liang

Mr. Tang Wing Cheung Louis

*Independent non-executive Directors:*

Mr. Tse Kwong Chan

Mr. Yiu To Wa

Mr. Lau Leong Yuen

Mr. Hong Hui Lung

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Principal place of business*

*in Hong Kong:*

Room 910, 9/F., Harbour Centre

25 Harbour Road, Wanchai

Hong Kong

16 July 2021

*To: the Qualifying Shareholders and, for information purpose only,  
the Excluded Shareholders and holders of Share Options*

Dear Sir or Madam,

### **PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE**

#### **INTRODUCTION**

Reference is made to the Announcement, in relation to, among other matters, the Rights Issue. On 16 June 2021, the Company proposed to raise up to approximately HK\$62.46 million on the basis of one (1) Rights Share for every one (1) Share held on the Record Date by issuing 624,637,750 Rights Shares at the Subscription Price of HK\$0.10 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date). The Subscription Price is payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

\* For identification purposes only

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among others, further details on the Rights Issue, certain financial information and other general information on the Group.

### PROPOSED RIGHTS ISSUE

The Board proposed to raise up to approximately HK\$62.46 million on the basis of one (1) Rights Share for every one (1) Share held on the Record Date by issuing 624,637,750 Rights Shares at the Subscription Price of HK\$0.10 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date).

Further details of the Rights Issue are set out below:

#### Issue statistics

Basis of the Rights Issue	:	One (1) Rights Share for every one (1) Share held at the close of business on the Record Date
Subscription Price	:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	624,637,750 Shares
Number of Rights Shares	:	Up to 624,637,750 Rights Shares with an aggregate nominal value of approximately HK\$62.46 million, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of issued shares of the Company upon completion of the Rights Issue	:	Up to 1,249,275,500 Shares, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before the completion of the Rights Issue
Amount to be raised	:	Up to approximately HK\$62.46 million before expenses, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before the Record Date

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, there are 59,056,660 outstanding Share Options, details of the outstanding Share Options are set out below:

Date of grant	Exercisable period	Exercise price (HK\$ per Share)	Number of
			outstanding Share Options as at the Latest Practicable Date
13 May 2020	13 May 2020 to 12 May 2022	0.133	53,150,994
20 August 2020	20 August 2020 to 19 August 2022	0.370	5,905,666

Save for the aforesaid, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 100.00% of the Company's issued share capital as at the Latest Practicable Date and approximately 50% of the Company's issued share capital as enlarged by the allotment and issue of the Rights Shares immediately after completion of the Rights Issue assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue.

### **Non-underwritten basis**

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders will be placed to independent placees under the Compensatory Arrangements. Any Unsubscribed Rights Shares or ES Unsold Rights Shares which remain not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue.

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## LETTER FROM THE BOARD

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As the Rights Issue will proceed on a non-underwritten basis, the Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5) of the Listing Rules.

### **The Optionholder's Undertakings**

As at the date of the Placing Agreement, each of the holders of the Share Options (including one Director) has signed an Optionholder's Undertaking for not exercising the Share Options granted to him/her on or before the Record Date.

### **Subscription Price**

The Subscription Price for the Rights Shares is HK\$0.10 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, when a renouncee 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:

- (a) a discount of approximately 12.28% to the closing price of HK\$0.1140 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 5.66% to the closing price of HK\$0.1060 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 2.91% to the theoretical ex-rights price of approximately HK\$0.1030 per Share based on the closing price of HK\$0.1060 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (d) a discount of approximately 2.34% to the average of the closing prices of approximately HK\$0.1024 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 2.44% to the average of the closing prices of HK\$0.1025 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;



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## LETTER FROM THE BOARD

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- (f) a discount of approximately 79.27% to the adjusted consolidated net asset value per Share of approximately HK\$0.4825 (based on the unaudited consolidated net asset value of the Group as at 30 September 2020 of approximately HK\$301,383,000 and the number of issued shares, which is 624,637,750); and
- (g) discount of approximately 79.81% to the adjusted consolidated net asset value per Share of approximately HK\$0.4954 (based on the audited consolidated net asset value of the Group as at 31 March 2021 of approximately HK\$309,437,000 and the number of issued shares, which is 624,637,750).

The Subscription Price was determined by the Company with reference to, among other things, the recent market price of the Shares, the prevailing market conditions, recent rights issue exercises in the market, the loss attributable to owners of the Company of approximately HK\$29.41 million for the financial year ended 31 March 2020 and the amount of funds and capital needs and the reasons for the Rights Issue as set out in the section headed “REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS” in this circular. All Qualifying Shareholders are entitled to subscribe for the Rights Shares in the same proportion to his/her/its existing shareholding in the Company held on the Record Date so as to maintain their proportionate interests in the Company and participate in the future growth of the Group.

The Directors noted that the Subscription Price represents discount of approximately 79.27% and 79.81% to the unaudited net asset value per Share as at 30 September 2020 and the audited net asset value per Share as at 31 March 2021, respectively. Given that (i) the Shares were traded at a substantial discount to the unaudited net asset value per Share during the period since the publication of the interim report of the Group for the six months ended 30 September 2020 and up to the Last Trading Day; (ii) the recent market price of the Shares reflects the recent market sentiment; and (iii) the Subscription Price represents a discount of approximately only 2.44% of the average closing price of the Shares for the 10 consecutive trading days up to and including the Last Trading Day, the Directors consider that it is reasonable to make reference to the market price of the Share, rather than the unaudited and/or audited net asset value per Share in determining the Subscription Price, and that the discount of the Subscription Price to the unaudited and/or audited net asset value per Share is justifiable.

The Directors (excluding the members of the Independent Board Committee whose opinion will be set forth in the circular of the Company after having been advised by the independent financial adviser) consider that, despite any potential dilution impact of the Rights Issue on the shareholding interests of the Shareholders, the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the following factors: (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue are able to sell the nil paid rights in the market; (ii) the Qualifying Shareholders who choose to accept their provisional entitlements in full can maintain their respective existing shareholding interests in the Company after the Rights Issue; and (iii) the Rights Issue allows 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 recent market price of the Shares.

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## LETTER FROM THE BOARD

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Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. The possible maximum dilution to shareholdings of those Qualifying Shareholders who do not subscribe to the Rights Issue is approximately 50%. The theoretical dilution effect of the Rights Issue is approximately 2.83% which is below 25% as required under Rule 7.27B of the Listing Rules.

The Directors (excluding the members of the Independent Board Committee whose opinion will be set forth in the circular of the Company after having been advised by the independent financial adviser) are of the view that the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders, and that all Qualifying Shareholders are treated equally. The net price per Rights Share (i.e. the Subscription Price less cost and expenses incurred in the Rights Issue) is estimated to be approximately HK\$0.0962, if fully subscribed.

### **Basis of provisional allotments**

The basis of the provisional allotment shall be one (1) Rights Share for every one (1) Share held by the Qualifying Shareholders as at the close of business on the Record Date.

The PAL relating to the Rights Shares will be enclosed with the Prospectus entitling the Qualifying Shareholders to whom it is addressed to subscribe for the Rights Shares as shown therein. Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by lodging a duly completed PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance.

### **Qualifying Shareholders**

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and not be an Excluded Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, a Shareholder must lodge the relevant transfer(s) of Share(s) (together with the relevant share certificates) with the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 10 August 2021.

Shareholders with their Shares held by a nominee (or held in CCASS) should note that the Board will consider the nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company.

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## LETTER FROM THE BOARD

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Shareholders with their Shares held by a nominee (or held in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date. For investors whose Shares are held by a nominee (or held in CCASS) and would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 10 August 2021.

The Qualifying Shareholders who take up their pro-rata entitlement in full will not experience any dilution to their interests in the Company. **If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.**

As at the date of the Placing Agreement, the Company has not received any undertaking from any substantial shareholders of the Company of any intention as to whether such Shareholder will take up his/her entitlements under the Rights Issue.

### **Rights of Overseas Shareholders**

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below. The Company will comply with Rule 13.36(2)(a) of the Listing Rules and make enquiries regarding the feasibility of extending the offer of the Rights Shares to Overseas Shareholders, if any. If, based on the legal opinions to be provided by the legal advisers to the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s), the Rights Issue will not be extended to such Overseas Shareholders.

Based on the register of members of the Company as at the Latest Practicable Date, the Company had 464 Overseas Shareholders, one with a registered address in Canada holding 4,371,386 Shares and 463 with registered addresses in the PRC holding an aggregate of 45,549,137 Shares. The Overseas Shareholders collectively held 49,920,523 Shares in aggregate, representing approximately 7.99% of the total number of Shares in issue as at the Latest Practicable Date. The Company is in the course of seeking legal advice in relation to the feasibility of extending the offer of the Rights Shares to such Overseas Shareholders. The result of the enquiries and the basis of the exclusion, if any, will be set out in the Prospectus.

The Company will send the Prospectus to the Excluded Shareholders (if any) for their information only, but will not send any PAL to them.

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## LETTER FROM THE BOARD

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Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders, to be sold in the market in their nil-paid form during the period from 9:00 a.m. on Friday, 20 August 2021 to 4:00 p.m. on Friday, 27 August 2021 if a premium (net of expenses) can be obtained. The proceeds from such sale, less expenses, of more than HK\$100 will be paid on pro-rata basis to the relevant Excluded Shareholders.

In view of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit.

Any unsold Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders in nil-paid form, will be placed by the Placing Agent at the price at least equal to the Subscription Price under the Placing Arrangement together with the Unsubscribed Rights Shares. Any Unsubscribed Rights Shares and the ES Unsold Rights Shares remain not placed after completion of the Placing Arrangement will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. For the nil-paid Rights Shares that were sold as described above and the buyer of such nil-paid Rights Shares who will not take up the entitlement, such Unsubscribed Rights Shares will be subject to the Compensatory Arrangements.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.

**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 should exercise caution when dealing in the Shares.**

### **Status of Rights Shares**

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid, on or after the record date of which is after the date of allotment of the Rights Shares in their fully-paid form. Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to payment of stamp duty, Stock Exchange trading fee, transaction levy or any other applicable fees and charges in Hong Kong.

### **Fractions of the Rights Shares**

On the basis of provisional allotment of one (1) Rights Share for every one (1) Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

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## LETTER FROM THE BOARD

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### **Procedures in respect of the Unsubscribed Rights Shares and the ES Unsold Rights Shares, and the Compensatory Arrangements**

Pursuant to Rule 7.21(1)(b) of the Listing Rules, the Company must make arrangements to dispose of the Unsubscribed Rights Shares and the ES Unsold Rights Shares by offering the Unsubscribed Rights Shares and the ES Unsold Rights Shares to independent placees for the benefit of the Shareholders to whom they were offered by way of the rights. There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules.

The Company therefore appointed the Placing Agent to place the Unsubscribed Rights Shares and the ES Unsold Rights Shares after the Latest Time for Acceptance to independent placees on a best effort basis, and any premium over the Subscription Price for those Rights Shares that is realised will be paid to the No Action Shareholders and Excluded Shareholders on a pro-rata basis. The Placing Agent will, on a best effort basis, procure, by not later than 6:00 p.m., on Thursday, 16 September 2021, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the ES Unsold Rights Shares at a price not less than the Subscription Price.

Net Gain (if any) will be paid (without interest) on pro-rata basis (on the basis of all Unsubscribed Rights Shares and ES Unsold Rights Shares) to the No Action Shareholders and the Excluded Shareholders (but rounded down to the nearest cent) as set out below:

- (i) where the nil-paid rights are, at the time they lapse, represented by a PAL, to the person whose name and address appeared on the PAL (unless that person is covered by (iii) below);
- (ii) where the nil-paid rights are, at the time they lapse, registered in the name of HKSCC Nominees Limited, to the beneficial holders (via their respective CCASS participants) as the holder of those nil-paid rights in CCASS (unless that person is covered by (iii) below); or
- (iii) if the Rights Issue is extended to the Overseas Shareholders and where an entitlement to the Rights Shares was not taken up by such Overseas Shareholders, to that Overseas Shareholders.

It is proposed that Net Gain to any of the No Action Shareholder(s) mentioned in (i) to (iii) above which is in an amount of HK\$100 or more will be paid to them in Hong Kong Dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit. Shareholders and the Excluded Shareholders may or may not receive any Net Gain.

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## LETTER FROM THE BOARD

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### THE PLACING AGREEMENT

On 16 June 2021 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the ES Unsold Rights Shares. Details of the Placing Agreement are as follows:

Date	:	16 June 2021 (after trading hours)
Issuer	:	The Company
Placing Agent	:	Sorrento Securities Limited was appointed as the Placing Agent to procure, on a best effort basis, Placees to subscribe for the Unsubscribed Rights Shares and the ES Unsold Rights Shares.

The Placing Agent confirmed that it is independent of and not connected with the Company and its connected persons or any of their respective associates.

Placing price of the Unsubscribed Rights Shares and/or and the ES Unsold Rights Shares	:	The placing price of the Unsubscribed Rights Shares and/or the ES Unsold Rights Shares shall be not less than the Subscription Price.
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The final price determination is depended on the demand and market conditions of the Unsubscribed Rights Shares and/or the ES Unsold Rights Shares during the process of placement.

Commission	:	2.5% of the amount which is equal to the Placing Price multiplied by the Unsubscribed Rights Shares and ES Unsold Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement.
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The commission is not payable by the Company to the Placing Agent if the Placing Agreement has not become unconditional or is otherwise terminated in accordance with its terms.

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## LETTER FROM THE BOARD

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- Placees : The Unsubscribed Rights Shares and the ES Unsold Rights Shares are expected to be placed to the Placee(s) who and whose ultimate beneficial owner(s) shall not be the Shareholder(s) and shall be the Independent Third Party(ies).
- Ranking of Unsubscribed Rights Shares and the ES Unsold Rights Shares : Unsubscribed Rights Shares and the ES Unsold Rights Shares (when placed, allotted, issued and fully paid) shall rank *pari passu* in all respects among themselves and with the Shares then in issue.
- Conditions Precedent : The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled (or being waived by the Placing Agent in writing, if applicable):
- (i) the Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in, the Rights Shares;
  - (ii) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion; and
  - (iii) the Placing Agreement not having been terminated in accordance with the provisions thereof.

The Placing Agent may, in its absolute discretion, waive the fulfillment of all or any or any part of the conditions precedent to the Placing Agreement (other than those set out in paragraph (i) above) by notice in writing to the Company. As at the Latest Practicable Date, none of the above conditions precedent may be waived by the Company or the Placing Agent

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## LETTER FROM THE BOARD

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Termination : The Placing Arrangement shall end on 16 September 2021 or any other date by mutual written agreement between the Placing Agent and the Company.

The engagement of the Placing Agent may also be terminated by Placing Agent in case of force majeure resulting in the Company and the Placing Agent being unable to fulfill its duties and responsibilities under the engagement. However, if during the course of the engagement it has come to the Placing Agent's knowledge that there is any material adverse change in the business and operational environment in the Company which, in the sole opinion of the Placing Agent, may make it inadvisable to continue the engagement, the Placing Agent shall have the right to terminate the engagement by written notice to the Company with immediate effect.

Placing Completion : Completion is expected to take place within six Business Days after publication of an announcement by the Company of the number of the Unsubscribed Rights Shares and the ES Unsold Rights Shares under the Compensatory Arrangements and upon fulfilment or waiver (as the case may be) of the conditions precedent to the Placing Agreement or such other date as the Company and the Placing Agent may agree in writing.

The Company shall use its best endeavours to procure the fulfilment of such conditions precedent to the Placing Agreement by the Long Stop Date. If any of the conditions precedent to the Placing Agreement have not been fulfilled by the Long Stop Date or become incapable of being fulfilled (subject to the Placing Agent not exercising its rights to waive or extend the time for fulfilment of such conditions), then the Placing will lapse and all rights, obligations and liabilities of the Company and the Placing Agent in relation to the Placing shall cease and determine, save in respect of any accrued rights or obligations under the Placing Agreement or antecedent breach thereof.



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## LETTER FROM THE BOARD

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The engagement between the Company and the Placing Agent for the Unsubscribed Rights Shares and ES Unsold Rights Shares (including the commission payable) was determined after arm's length negotiation between the Company and the Placing Agent and is on normal commercial terms with reference to the market comparables, the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. The Directors consider that the terms of Placing Agreement for the Unsubscribed Rights Shares and ES Unsold Rights Shares (including the commission payable) are on normal commercial terms.

Given that the Compensatory Arrangements would provide (i) a distribution channel of the Unsubscribed Rights Shares and the ES Unsold Rights Shares to the Company; (ii) an additional channel of participation in the Rights Issue for independent Qualifying Shareholders; and (iii) a compensatory mechanism for No Action Shareholders and the Excluded Shareholders, the Directors consider that the Compensatory Arrangements are fair and reasonable and would provide adequate safeguard to protect the interest of the Company's minority Shareholders.

### **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 their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue. The nil-paid Rights Shares shall have the same board lot size as the Shares, i.e. 2,000 Shares in one board lot. No part of the share capital of the Company is listed or dealt in or on which listing or permission to deal in is being or is proposed to be sought on any stock exchange other than the Stock Exchange.

### **Rights Shares will be eligible for admission in CCASS**

Subject to the granting of the approval for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from their respective commencement dates of dealings on the Stock Exchange or such other dates as determined by HKSCC.

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## LETTER FROM THE BOARD

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Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### **Stamp duty and other applicable fees**

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy or any other applicable fees and charges in Hong Kong.

### **Taxation**

Shareholders are advised to consult their professional advisers if they are in any doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the Rights Shares and, regarding the Excluded Shareholders, their receipt of the net proceeds, if any, from sale of the nil-paid Rights Shares on their behalf.

### **Share certificates and refund cheques for the Rights Issue**

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully paid Rights Shares are expected to be posted on or before Monday, 20 September 2021 by ordinary post to the allottees, at their own risk, to their registered addresses. Each Shareholder will receive one share certificate for all allotted Shares.

### **Conditions of the Rights Issue**

The Rights Issue is conditional upon:

- (a) the passing by the Shareholders (or the Independent Shareholders, as the case may be) at the SGM of the necessary resolution(s) to approve the Rights Issue, and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Rights Shares) by no later than the Prospectus Posting Date;
- (b) the Listing Committee of the Stock Exchange granting or agreeing to grant and not having withdrawn or revoked the listing of, and permission to deal in, all the Rights Shares (in their nil-paid and fully-paid forms);

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## LETTER FROM THE BOARD

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- (c) the delivery to the Stock Exchange and the filing and registration with the Registrar of Companies in Hong Kong respectively one duly certified copy of each of the Prospectus and the PALs (and all other documents required to be attached thereto) in compliance with the Companies (WUMP) Ordinance and the Listing Rules by no later than the Prospectus Posting Date; and
- (d) the posting of the Prospectus Documents to Qualifying Shareholders and the posting of the Prospectus and the Overseas Letter to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue by the Prospectus Posting Date.

The Company shall use all reasonable endeavours to procure the fulfilment of all the above conditions by the respective dates specified above.

**As the proposed Rights Issue is subject to the above conditions, it may or may not proceed.**

### **Arrangement on odd lot trading**

In order to facilitate the trading of odd lots (if any), the Company will arrange odd lot matching services during Tuesday, 21 September 2021 to Tuesday, 12 October 2021 (both dates inclusive). Shareholders who wish to take advantage of this service should contact Sorrento Securities Limited at 11/F, The Wellington, 198 Wellington Street, Central, Hong Kong or at telephone number (852) 3959 9800 during office hours (i.e. 9:00 a.m. to 6:00 p.m.) of such period. Shareholders should note that matching of the sale and purchase of odd lots of the Shares is on a best effort basis and successful matching of the sale and purchase of such odd lots is not guaranteed.

## LETTER FROM THE BOARD

### SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 624,637,750 Shares in issue. On the assumption that there is no change in the shareholding structure of the Company from the Latest Practicable Date to completion of the Rights Issue other than the allotment and issue of Rights Shares pursuant to the Rights Issue, the table below depicts, for illustrative purposes only, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders; and (iii) immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and all Unsubscribed Rights Shares and ES Unsold Rights Shares have been placed by the Placing Agent:

	As at the Latest Practicable Date		Assuming full acceptance of the Rights Shares by the existing Shareholders		Immediately upon completion of the Rights Issue Assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and all Unsubscribed Rights Shares and ES Unsold Rights Shares have been placed by the Placing Agent	
	Number of Shares	Approx.% (note)	Number of Shares	Approx.% (note)	Number of Shares	Approx.% (note)
Ms. Guo Sha	47,000,000	7.52	94,000,000	7.52	47,000,000	3.76
Ms. Dong Qian	40,000,000	6.40	80,000,000	6.40	40,000,000	3.20
Public Shareholders	537,637,750	86.08	1,075,275,500	86.08	537,637,750	43.04
Independent placees	—	—	—	—	624,637,750	50.00
Total	<u>624,637,750</u>	<u>100.00</u>	<u>1,249,275,500</u>	<u>100.00</u>	<u>1,249,275,500</u>	<u>100.00</u>

*Notes:*

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.

Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

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## LETTER FROM THE BOARD

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### REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Company is an investment holding company. The Group is principally engaged in the businesses of design, Original Equipment Manufacturing (“OEM”) and marketing of jewelry and provision of loans (“**Money Lending**”).

For the years ended 31 March 2019 and 31 March 2020, the Group recorded (i) revenue of continuing operations of approximately HK\$137.59 million and HK\$90.54 million, respectively; and (ii) loss for the year of approximately HK\$51.46 million and HK\$29.41 million, respectively. During the six months ended 30 September 2020, the Group recorded (i) unaudited revenue of continuing operations of approximately HK\$36.74 million as compared to approximately HK\$63.25 million for the same period in 2019; and (ii) unaudited loss for the period of approximately HK\$3.05 million as compared to unaudited loss of approximately HK\$6.35 million for the same period in 2019. As mentioned in the annual report of the Company for the year ended 31 March 2020 (the “**2020 Annual Report**”), the interim report of the Company for the six months period ended 30 September 2020 and the annual results announcement of the Company for the year ended 31 March 2021 (the “**2020/21 Annual Results**”), due to the severe outbreak of COVID-19 since January 2020, various regions were under extensive lockdown and various levels of restrictions on public and business activities. The implementation of social distancing and quarantine measures in many countries worldwide have dampened consumer sentiment and brought the international tourism to a standstill, plunging the global economy into recession. The drastic drop in foot traffic has led to the sales slump of design, OEM and marketing of jewelry business. The Group expects the design, OEM and marketing of jewelry business segment will continue to face more challenges in the foreseeable future and the Directors expect to see good growth potentials when the market recovers as the impact of COVID-19 fades away. According to the statistics from Hong Kong Census and Statistics Department, despite the retail sales of the jewelry, watches and clocks, and valuable gifts in Hong Kong decreasing by approximately 38.44% from approximately HK\$51,984 million for the 12 months ended 31 March 2020 to approximately HK\$32,003 million for the 12 months ended 31 March 2021, the retail sales of the jewelry, watches and clocks, and valuable gifts increased by approximately 35.21% from approximately HK\$13,606 million for the six months ended 30 September 2020 to approximately HK\$18,397 million for the six months ended 31 March 2021. The Directors believe that the jewelry, watches and clocks, and valuable gifts category in Hong Kong has started to recover.

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## LETTER FROM THE BOARD

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Therefore, the Company proposes to raise equity capital by the Rights Issue to supplement its operation needs and particularly for its principal business activities. It is estimated that the Company will raise a gross proceeds of approximately HK\$62.46 million from the Rights Issue and the relevant expenses would be approximately HK\$2.35 million, which include placing commission and professional fees payable to financial advisers, legal advisers, financial printer and other parties involved in the Rights Issue. The estimated net proceeds from the Rights Issue will accordingly be approximately HK\$60.11 million (equivalent to a net price of approximately HK\$0.0962 per Rights Share). In line with the aforesaid business objectives, the Company intends to utilise the net proceeds from the Rights Issue as follows:-

- (i) approximately HK\$5.76 million (or approximately 9.58% of the total net proceeds) for the repayment of the loan and interest payable of the Group;
- (ii) approximately HK\$9.46 million (or approximately 15.74% of the total net proceeds) for the repayment of the overdue debts of the Group;
- (iii) approximately HK\$30.00 million (or approximately 49.91% of the total net proceeds) for the development of new jewelry products and expansion of sales network in various third-party retail locations in Hong Kong; and
- (iv) approximately HK\$14.89 million (or approximately 24.77% of the total net proceeds) for general working capital of the Group.

### **Repayment of the loan and interest payable of the Group**

As at 31 March 2021, the Group was indebted to a financial institution in the principal amount of HK\$4.60 million. The loan payable bears an interest of 10.5% per annum and is repayable on demand by the financial institution in November 2021. The Company intends to apply approximately HK\$5.76 million from the Rights Issue for repayment of loan and interest payable of the Group.

### **Repayment of the overdue debts of the Group**

As at 31 March 2021, the Group had overdue debts, which consist of loan from a director, other payable, advertising and marketing expenses and other expenses, in the aggregate amount of approximately HK\$9.46 million, all of which have already fallen due. The Company intends to apply approximately HK\$9.46 million from the Rights Issue for repayment of overdue debts of the Group.

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## LETTER FROM THE BOARD

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### **Development of new jewelry products and expansion of sales network in various third-party retail locations in Hong Kong**

In light of vaccine rollouts, control of the COVID-19 pandemic is expected in the future, which in turn will boost consumption sentiment. The Directors believe the design, OEM and marketing of jewelry business will rebound quickly once border shutdowns are lifted as the pandemic eases. Thus, the Group intends to invest more resources into the design, OEM and marketing of jewelry business, in order to capture the potential purchasing power in the near future. The Group is principally engaged in the businesses of design, OEM and marketing of jewelry in Hong Kong. Therefore, the success of the Group depends on its ability to continuously develop marketable products and launch via appropriate sales channels and network. By leveraging the experience of the Group in design and production of diamond jewelry products, the Company intends to design and develop gold jewelry products and expand its product offering. The Company expects to design and launch a total of over 5,000 gold jewelry products in 40 different styles and five different collections in the coming year which will require (i) development costs including purchase cost of approximately HK\$24.22 million and design cost of approximately HK\$0.60 million; (ii) consignment fee of approximately HK\$4.68 million; and (iii) marketing cost of approximately HK\$0.50 million. Such development costs are estimated based on the third-party quotations available to the Group and the expected salary of designer and craftsman to be employed.

Such new gold jewelry products mainly include (i) necklaces and pendants; (ii) bracelets; (iii) earrings; and (iv) rings. The Directors consider that by (i) continuous development of a wider variety of jewelry products with creative and sophisticated designs; and (ii) serving customers with the Group's strong designer and craftsman, the Group could maintain its competitiveness in the market and give confidence to customers on the Group's product quality.

To cope with the development of the Group's new jewelry products. The Group plans to expand its sales network to over 10 sales locations in Hong Kong upon agreement with the relevant dealers on the sale arrangement. As at the Latest Practicable Date, the Company is still in negotiation with the relevant dealers in respect of the sale arrangement of the Group's new products at their sales locations, such as sharing of income generated from sales of the Group's products, credit terms and administrative arrangements.

The Directors expect it will take around six months for the development of the abovementioned new products. The Company will, from time to time, assess the market condition and determine the production plan of these new products.

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## LETTER FROM THE BOARD

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### General working capital

As at 31 March 2021, the Group's bank and cash balances were approximately HK\$1.53 million. Given the low cash level of the Group as aforesaid, the Directors intends to apply the net proceeds from the Rights Issue to replenish the general working capital of the Group, so as to accommodate the operating cash expenses of the Company and to respond to any unforeseen need in capital. The Company intends to apply the the remaining balance (approximately 24.77%) of the net proceeds from the Rights Issue for the general working capital of the Group as follows:

- (i) approximately HK\$8.82 million will be applied for staff costs;
- (ii) approximately HK\$3.30 million will be applied for marketing expenses for the development of existing products of the Group;
- (iii) approximately HK\$1.40 million will be applied for the lease payment of office premises; and
- (iv) approximately HK\$1.37 million will be applied for other operating expenses.

If the Rights Issue is undersubscribed, the above use of proceeds will be adjusted by the Company accordingly and the net proceeds from the Rights Issue will be applied by the Company in the following order of priority:

- (i) for the repayment of the loan and interest payable of the Group;
- (ii) for the repayment of the overdue debts of the Group;
- (iii) for the development of new jewelry products and expansion of sales network in various third-party retail locations in Hong Kong.

The Directors consider that the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position, while at the same time the Rights Issue will enable all Qualifying Shareholders to participate in the future development of the Company on equal terms. Since the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution, the Directors consider that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue. As at the Latest Practicable Date, the Company has no intention, agreement, arrangement, understanding, intention and/or negotiation (i.e. conducted or otherwise) on any potential equity/debt fundraising activities in the next twelve months after the proposed Rights Issue.



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## LETTER FROM THE BOARD

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### **Alternative fund-raising methods considered**

The Directors have considered other financing alternatives including (i) other debt financing, and (ii) equity fund raising such as placement of new Shares and open offer. The Board considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole, for the reasons as follows:

- (a) As for other debt financing, as at the Latest Practicable Date, the Group has attempted to obtain other loan financing from independent third parties, but the interest rate offered is generally over 30% per annum.
- (b) As for placement of new Shares, it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company.
- (c) As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market.

As such, the Directors consider that equity financing does not involve recurring interest expense and the financing process is usually simpler and quicker than negotiating bank borrowings, and therefore would allow the Group to react promptly to market conditions and business opportunities.

In addition, the Directors consider that the terms of the Rights Issue and Placing Arrangement are fair and reasonable and in the best interest of the Company and Shareholders as a whole since (i) under the Rights Issue, all the Qualifying Shareholders will be offered the same opportunity to maintain their proportionate interests in the Company and to participate in the growth and development of the Group and the Qualifying Shareholders have the first right to decide whether to accept their entitlements of the Rights Shares; and (ii) the Shareholders who do not want to participate in the Rights Issue can dispose of the nil-paid Rights Shares in the secondary market for their own economic benefit. Although the Rights Issue on a non-underwritten basis may not raise sufficient funds to satisfy the funding needs as aforementioned, taking into account that (i) the placing obligation of the Placing Agent are more or less similar to an underwriter of the Rights Issue (except that the Placing Agent is on best effort basis) and therefore adopting the Placing Arrangement simultaneously would help to maximise the funds to be raised; (ii) the Company was not able to secure any underwriter who was willing to underwrite the Rights Shares; and (iii) the recent rights issue exercises conducted by companies listed on the Stock Exchange whereby the Unsubscribed Rights Shares and ES Unsold Rights Shares have been more or less fully placed by the placing agents, the Directors considers that the Rights Issue is in the best interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activities involving issue of its securities in the past 12 months immediately preceding the date of the Placing Agreement and up to the Latest Practicable Date.

### POSSIBLE ADJUSTMENTS RELATING TO THE SHARE OPTIONS

As at the Latest Practicable Date, there were 59,056,660 outstanding Share Options.

Pursuant to the terms of the Share Option Scheme and the terms, the exercise prices and/or number of new Shares to be issued upon exercise of the Share Options may be adjusted in accordance with the Share Option Scheme, if any, upon the Rights Issue becoming unconditional. The Company will notify the holders of the Share Options the adjustments upon the Rights Issue becoming unconditional by further announcement, if necessary.

### LISTING RULES IMPLICATIONS

In accordance with Rule 7.19A of the Listing Rules, as the Rights Issue will increase the issued shares of the Company by more than 50%, the Rights Issue is subject to the approval of the minority Shareholders at the SGM by way of poll. Pursuant to Rule 7.27A(1) of the Listing Rules, where Independent Shareholders' approval is required for a rights issue under Rule 7.19A, the rights issue must be made conditional on approval by the shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the rights issue.

As at the Latest Practicable Date, Ms. Zhou Yaying, who is the chairman and an executive Director of the Company, holding 4,371,386 Shares and 5,905,666 Share Options (representing approximately 1.65% of the existing issued shares in aggregate), shall abstain from voting in the Board meeting for approving the proposed Rights Issue. Save as mentioned above, none of the Directors and Shareholders has any material interest in the transactions contemplated under the proposed Rights Issue who are required to abstain from voting in the Board meeting in respect of the proposed Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules.

The Company has not conducted any rights issue, open offer or specific mandate placings within the 12-month period immediately preceding the Placing Agreement, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue, open offer and/or specific mandate placings within such 12-month period.

The 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.

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## LETTER FROM THE BOARD

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### **Closure of register of members**

The register of members of the Company will be closed from Friday, 30 July 2021 to Thursday, 5 August 2021 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the SGM.

The register of members of the Company will be closed from Wednesday, 11 August 2021 to Tuesday, 17 August 2021 (both dates inclusive) for determining the entitlements to the Rights Issue.

No transfer of Shares will be registered during the above book closure periods.

### **GENERAL**

The SGM will be convened for the Shareholders to consider and, if thought fit, approve the Rights Issue, and the transactions contemplated hereunder.

The Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules.

The notice convening the SGM to be held at at Falcon Room I, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Thursday, 5 August 2021 at 10:30 a.m. is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM is also enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Union Registrars Limited, the branch share registrar of the Company in Hong Kong, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM (i.e. 10:30 a.m. on Tuesday, 3 August 2021, Hong Kong time) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

Subject to the approval of the Rights Issue by the Independent Shareholders at the SGM, a Prospectus containing further information regarding, among other things, the Rights Issue, including information on acceptances of the Rights Shares and other information in respect of the Group, and PAL(s) are expected to be despatched to the Qualifying Shareholders on Wednesday, 18 August 2021.

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## LETTER FROM THE BOARD

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### WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

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

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. 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 fulfillment of the conditions of the Rights Issue, the Rights Issue will proceed regardless of the ultimate subscription level. In the event the Rights Issue is undersubscribed, any subscribed Rights Shares will be placed to independent places under the Unsubscribed Arrangements. Any Unsubscribed Rights Shares not placed under the Unsubscribed Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

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

### RECOMMENDATIONS

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Tse Kwong Chan, Mr. Yiu To Wa, Mr. Lau Leong Yuen and Mr. Hong Hui Lung, 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. Donvex Capital 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 36 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from Independent Financial Advisor set out on pages 37 to 70 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

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## LETTER FROM THE BOARD

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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.

### **ADDITIONAL INFORMATION**

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

For and on behalf of the Board  
**China Environmental Energy Investment Limited**  
**Zhou Yaying**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Rights Issue.*



**China Environmental Energy Investment Limited**

**中國環保能源投資有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 986)**

16 July 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF  
ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE  
HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 16 July 2021 (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.

Donvex Capital 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 Donvex Capital, 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,

Independent Board Committee

**Mr. Tse Kwong Chan**

**Mr. Yiu To Wa**

**Mr. Lau Leong Yuen**

**Mr. Hong Hui Lung**

*Independent non-executive Directors*

\* For identification purposes only

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## LETTER FROM DONVEX CAPITAL

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*The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



Unit 2502, 25th Floor,  
Carpo Commercial Building  
18-20 Lyndhurst Terrace  
Central  
Hong Kong

16 July 2021

*The Independent Board Committee and the Independent Shareholders of  
China Environmental Energy Investment Limited*

Dear Sir or Madam,

### **PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in fairness and reasonableness of the terms of the Rights Issue and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 16 July 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The Board proposed to raise up to approximately HK\$62.46 million on the basis of one (1) Rights Share for every one (1) Share held on the Record Date by issuing 624,637,750 Rights Shares at the Subscription Price of HK\$0.10 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date). The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

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## LETTER FROM DONVEX CAPITAL

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The estimated net proceeds (after the deduction of the costs and expenses relating to the Rights Issue) will be approximately HK\$60.11 million (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date), if fully subscribed. The Company intends to apply the net proceeds from the Rights Issue for (i) the repayment of the loan and interest payable of the Group; (ii) the repayment of the overdue debts of the Group; (iii) the development of new jewelry products and expansion of sales network in various third-party retail locations in Hong Kong; and (iv) general working capital of the Group.

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. However, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the ES Unsold Rights Shares.

In accordance with Rule 7.19A of the Listing Rules, as the Rights Issue will increase the issued shares of the Company by more than 50%, the Rights Issue is subject to the approval of the minority Shareholders at the SGM by way of poll. Pursuant to Rule 7.27A(1) of the Listing Rules, where Independent Shareholders' approval is required for a rights issue under Rule 7.19A, the rights issue must be made conditional on approval by the shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the rights issue.

Ms. Zhou Yaying, who is the chairman and an executive Director of the Company, has abstained from voting in the Board meeting for approving the proposed Rights Issue. Save as mentioned above, none of the Directors and Shareholders has any material interest in the transactions contemplated under the proposed Rights Issue who are required to abstain from voting in the Board meeting in respect of the proposed Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules.



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## LETTER FROM DONVEX CAPITAL

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The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Tse Kwong Chan, Mr. Yiu To Wa, Mr. Lau Leong Yuen and Mr. Hong Hui Lung, has been established to advise the Shareholders on (i) whether the terms of the Rights Issue are fair and reasonable; (ii) whether the Rights Issue is in the interests of the Company and the Shareholders as a whole; and (iii) how to vote on the resolutions at the SGM in relation to the Rights Issue and the transactions contemplated thereunder, after taking into account the recommendation of the Independent Financial Adviser. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

### INDEPENDENCE

We did not act as financial adviser to the Group and its respective connected persons in the past two years immediately preceding the Latest Practicable Date.

We are independent from, and not connected with, the Company or any of its substantial shareholders, directors, chief executive, or any of their respective associates, and have sufficient expertise and resources to give an opinion on the transactions. As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties within the past two years that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Adviser, no other arrangements exist within the past two years whereby we had received or will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. We consider ourselves independent to form our opinion in relation to the Rights Issue.

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have reviewed, among others:

- (i) the Company's annual report for the year ended 31 March 2020;
- (ii) the Company's interim report for the six months ended 30 September 2020;
- (iii) the Company's annual result announcement for the year ended 31 March 2021 dated 30 June 2021;
- (iv) the Placing Agreement; and
- (v) other information as set out in this Circular and its relevant supporting documents.

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## LETTER FROM DONVEX CAPITAL

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We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true up to the Latest Practicable Date.

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.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Company, nor have we carried out independent verification on the information supplied. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Independent Shareholders should note that subsequent developments, including any material change in market and economic conditions, may affect or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with the Rights Issue and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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## LETTER FROM DONVEX CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Rights Issue, we have taken into consideration the following principal factors and reasons:

#### 1. Background information of the Group

The Company is an investment holding company. The Group is principally engaged in the businesses of design, original equipment manufacturing and marketing of jewelry and provision of loans.

#### 2. Financial information of the Group

Set out below are the summarized financial information of the Group for (i) the years ended 31 March 2019 and 2020 as extracted from the 2020 Annual Report; (ii) the year ended 31 March 2021 as stated in the annual results announcement of the Company dated 30 June 2021; and (iii) the six months ended 30 September 2019 and 2020 as extracted from the 2020/21 Interim Report:

	For the six months ended 30 September		For the year ended 31 March		
	2020	2019	2021	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Revenue	36,736	63,253	105,651	90,544	137,585
Cost of sales	<u>(25,815)</u>	<u>(52,241)</u>	<u>(82,145)</u>	<u>(69,814)</u>	<u>(110,965)</u>
Gross Profit	10,921	11,012	23,506	20,730	26,620
Finance costs	(539)	(562)	(1,264)	(1,113)	(795)
Profit/(Loss) for the periods/years	(3,049)	(6,349)	4,447	(29,411)	(51,456)

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## LETTER FROM DONVEX CAPITAL

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	As at 31 March 2021 <i>HK\$'000</i> (audited)	As at 31 March 2020 <i>HK\$'000</i> (audited)	As at 31 March 2019 <i>HK\$'000</i> (audited)
<b>Current assets</b>			
Bank balances and cash	1,534	7,433	12,527
<b>Current liabilities</b>			
Loan and interest payables	6,404	5,893	5,381
<b>Non-current liabilities</b>			
Unconvertible bond	16,145	10,158	10,158
<b>Net assets</b>	309,437	298,460	312,282

### ***Comparison between the year ended 31 March 2021 and the year ended 31 March 2020***

For the year ended 31 March 2021, the Group reported a total revenue of approximately HK\$105.65 million as compared with approximately HK\$90.54 million for the year ended 31 March 2020, representing an increase of approximately 16.68%. Such increase was mainly due to the increase of revenue in both Design, OEM and Marketing of Jewelry business and Money Lending business which resulted from the overall recovery of the retail sector and higher demand in money lending as compared to the previous financial year.

The profit for the year ended 31 March 2021 for the Group was approximately HK\$4.45 million as compared to a loss of approximately HK\$29.41 million for the year ended 31 March 2020. The turn to profit was mainly due to, including but not limited to, (i) no fair value loss on financial assets as compared to a loss of approximately HK\$12.15 million in the previous year; (ii) reversal of expected credit losses on loan and interest receivables of approximately HK\$8.83 million as compared to a loss of approximately HK\$13.88 million in the previous year; and (iii) the decrease in the impairment of goodwill of Design, OEM and Marketing of Jewelry business of approximately HK\$12.99 million during the year.

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## LETTER FROM DONVEX CAPITAL

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As at 31 March 2021, the Group had bank and cash equivalents of approximately HK\$1.53 million.

As at 31 March 2021, the Group's total interest-bearing borrowings and interest payable amounted to approximately HK\$22.55 million. The Group's gearing ratio as at 31 March 2021 was 6.36%.

***Comparison between the year ended 31 March 2020 and the year ended 31 March 2019***

For the year ended 31 March 2020, the Group reported a total revenue of approximately HK\$90.54 million compared with approximately HK\$137.59 million for the year ended 31 March 2019, representing a decrease of approximately 34.20%. Such decrease was mainly due to the decrease in revenue in the design, OEM and marketing of jewelry business as a result of continuous social incidents since June 2019 and the severe outbreak of COVID-19 since December 2019, which lead to a significant decrease in the purchase of jewelries by the corporate customers and tourists.

The loss for the year of the Group was approximately HK\$29.41 million for the year ended 31 March 2020 as compared to HK\$51.46 million for the year ended 31 March 2019. The decrease of loss for the year was mainly due to (i) the absence of loss in the provision of financial advisory, intermediary and asset management services during the year ended 31 March 2020 by virtue of the disposal of the aforementioned services for the year ended 31 March 2019; (ii) the gain on disposal of assets classified as held for sale of approximately HK\$11.88 million during the year ended 31 March 2020; and (iii) the decrease in impairment losses on the assets of approximately HK\$11.63 million for the year ended 31 March 2020.

As at 31 March 2020, the Group had bank and cash equivalents of approximately HK\$7.43 million.

As at 31 March 2020, the Group's total interest-bearing borrowings and interest payable amounted to approximately HK\$16.05 million. The Group's gearing ratio as at 31 March 2020 was 2.81%.

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## LETTER FROM DONVEX CAPITAL

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### ***Comparison between six months ended 30 September 2020 and six months ended 30 September 2019***

For the six months ended 30 September 2020, the Group reported revenue of approximately HK\$36.74 million as compared with approximately HK\$63.25 million for the six months ended 30 September 2019, representing a decrease of approximately 41.91%, which was mainly due to the decrease in revenue generated from the design, OEM and marketing of jewelry business as a result of the severe outbreak of the COVID-19 during the six months ended 30 September 2020 and the decrease of the purchase of jewelries from the corporate customers and the tourists.

The Group recorded a loss of the Company of approximately HK\$3.05 million for the six months ended 30 September 2020 as compared with the loss of approximately HK\$6.35 million for the same period in 2019. The decrease in loss for the period is due to (i) the absence of fair value loss on financial assets for six months ended 30 September 2020 as the financial assets at fair value through profit or loss had been redeemed during the year ended 31 March 2020; and (ii) the decrease in impairment loss recognised on the trade receivables of approximately HK\$2.7 million for six months ended 30 September 2020.

As at 30 September 2020, the Group had bank balances and cash of approximately HK\$16.89 million.

As at 30 September 2020, the Group's total interest-bearing borrowings and interest payable amounted to approximately HK\$26.06 million. The Group's gearing ratio as at 30 September 2020 was 2.95%.

### **3. Reasons for and benefits of the Rights Issue and use of proceeds**

As stated in the Letter from the Board, the net proceeds from the Rights Issue, after deducting the estimated expenses, are estimated to be approximately HK\$60.11 million. The Company intends to apply the proceeds from the Rights Issue as follows:

- (i) approximately HK\$5.76 million or approximately 9.58% of the total net proceeds for the repayment of loan and interest payable of the Group;
- (ii) approximately HK\$9.46 million or approximately 15.74% of the total net proceeds for the repayment of debts of the Group

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## LETTER FROM DONVEX CAPITAL

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- (iii) approximately HK\$30.00 million or approximately 49.91% of the total net proceeds for the development of new jewelry products and expansion of sales network in various third-party retail locations in Hong Kong; and
- (iv) approximately HK\$14.89 million or approximately 24.77% of the total net proceeds for general working capital of the Group

### ***Repayment of loan and interest payable***

The following table sets forth the details of the loan agreement entered into between the Company and a financial institution:

Date	:	8 November 2018
Interest rate	:	10.5% per annum
Principal amount	:	HK\$4,600,000
Interest amount	:	HK\$483,000 per annum
Outstanding principal and interest amount as at 31 March 2021	:	HK\$5,758,000
Due date as at the Latest Practicable Date	:	8 November 2021

The Directors of the Company intended to apply the proceeds to repay the loan and interest payable to this financial institution for the following reasons:

- (i) the repayment of loans will lower the financial burden of the Company by saving finance costs of approximately HK\$0.48 million annually;
- (ii) the cash and bank balances of the Group amounted to approximately HK\$1.53 million as at 31 March 2021, which was insufficient to repay the loan and interests; and
- (iii) the Group shall repay the loan and interest payable in November 2021.

In view of the above, we concur with the Directors' view that the repayment of loans with proceeds from the Rights Issue is in the interest of the Company and the Shareholders as a whole.

## LETTER FROM DONVEX CAPITAL

### *Repayment of overdue debts*

The details of the overdue debts of the Group are set out as follows:

Nature of overdue debts	Outstanding amount as at the Latest Practicable Date HK\$'000	Before Mar 20	Repayment schedule Amount of debt shall be settled for the three months ended			Maturity Date
			Jun 20	Sep 20	Dec 20	
Promotion and marketing expenses	4,800	–	1,200	1,200	1,200	1,200 Monthly expenses due on the last calendar day of each month
Accrual directors' remuneration	1,095	–	–	380	354	361 Monthly expenses due on the last calendar day of each month
Tax payables	621	–	–	–	–	621 January 2021
Accrual-other expenses	992	137	–	–	31	824 N/A
Loan from an ex-director	646	618	–	–	–	28 April 2019
Loan from a director	350	–	–	–	200	150 November 2020
Loan from a director	954	610	–	173	–	171 March 2019
Total	9,458	1,365	1,200	1,753	1,785	3,355

We have reviewed the supporting documents of the overdue debts, such as the invoices issued by the counterparties, and noted that the debts have been overdue for at least five months as at the Latest Practicable Date.

The Directors of the Company intended to apply HK\$9.46 million of the proceeds to repay the overdue debts for the following reasons:

- (i) the cash and bank balances of the Group amounted to approximately HK\$1.53 million as at 31 March 2021, which was insufficient to repay the overdue debts;
- (ii) as advised by the Directors, the overdue debts have been past due for at least five months as at the Latest Practicable Date; and
- (iii) Directors are of the view that the overdue debts would have adverse impact on the credibility of the Company and the relationships with existing business partners or service providers, which would result in potential difficulties in conducting business in an efficient manner. In more serious scenarios, it may even result in lawsuits that incur significant expenses and subsequently impose adverse impact on the financial statement of the Group.



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## LETTER FROM DONVEX CAPITAL

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In light of the above reasons, we concur with the Directors' view that the repayment of overdue debts with proceeds from the Rights Issue is in the interest of the Company and the Shareholders as a whole.

***Development of new jewelry products and expansion of sales network***

As disclosed in the section headed "Financial information of the Group" in this letter, the Group experienced loss for 2 consecutive years of approximately HK\$51.46 million and HK\$29.41 million for the years ended 31 March 2019 and 2020 respectively. This is mainly due to the social incidents since June 2019 and the outbreak of the pandemic and dampened consumer sentiment amid the global economic recession. The retail industry is seriously impacted as borders are closed and quarantine measures being implemented in Hong Kong. As a result, the jewelry business of the Group was majorly affected by the decrease of corporate customers and tourists. Despite the losses for two consecutive years, the Directors are of view that in light of vaccine rollouts, control of the COVID-19 pandemic is expected in the future, which in turn will boost consumption sentiment. The jewelry, watches and clocks, and valuable gifts sector in Hong Kong has started to recover and planned to use approximately HK\$30.00 million of the proceeds from the Rights Issue for the development of new jewelry products and expansion of sales network.

As stated in the Letter from the Board, the Company intends to design and develop gold jewelry products and expand its products offering. The Company expects to design and launch a total of over 5,000 gold jewelry products, which includes necklaces and pendants, bracelets, earrings and rings, in 40 different styles and five different collections in the coming year which will require (i) development costs including purchase cost of approximately HK\$24.22 million and design cost of approximately HK\$0.60 million; (ii) consignment fee of approximately HK\$4.68 million; and (iii) marketing cost of approximately HK\$0.50 million. Such development costs are estimated based on the third-party quotations available to the Group and the expected salary of designer and craftsman to be employed. The Group plans to expand its sales network to over 10 reputable retail places, including the trendy jewelry and accessories stores in Hong Kong. As at the Latest Practicable Date, the Company is still in negotiation with the relevant dealers in respect of the sale arrangement of the Group's new products at their retail places, such as sharing of income generated from sales of the Group's products, credit terms and administrative arrangements.

In order to assess the fairness and reasonableness of this decision, we have reviewed the following information:

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## LETTER FROM DONVEX CAPITAL

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- (i) *The monthly survey of retail sales from November 2019 to April 2021 of the jewelry, watch and clocks and valuable gifts sector*

The value of retail sales in the jewelry, watch and clocks and valuable gifts sector as obtained on the website of the Census and Statistics Department:



Source: Website of the Census and Statistics Department

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## LETTER FROM DONVEX CAPITAL

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As shown in the graph, we see a gradual increase in quarterly sale value of goods in the jewelry, watches and clocks and valuable gifts sector for the period from February 2020 to April 2021 in Hong Kong. The sector recorded sales value of approximately HK\$13,471 million, HK\$4,557 million, HK\$7,037 million, HK\$8,073 million, HK\$9,229 million and HK\$8,934 million for the three months ended 31 January 2020, 30 April 2020, 31 July 2020, 31 October 2020, 31 January 2021 and 30 April 2021 respectively. COVID-19 was first confirmed to have spread in Hong Kong in approximately the end of January 2020, thus we see a huge plunge in sales value in the sector from HK\$13,471 million for the three months ended 31 January 2020 to HK\$4,557 million for the three months ended 30 April 2020. The sales value of the sector increased at a steady pace since then. The quarterly increase was approximately 54.4%, 14.7% and 14.3% for the three consecutive quarters ended 31 July 2020, 31 October 2020 and 31 January 2021 respectively. Although there is a slowdown in the increase of quarterly sales value, the increase is still substantial. We also note that there is a slight decrease in the sales value for the three months ended 30 April 2021 to approximately HK\$8,934 million from approximately HK\$9,229 million for the three months ended 31 January 2021, representing a decrease of 3.20%. We are of the view that the decrease might be due to the cyclical spending patterns as historical sales value tends to be higher during December and January, which is the period around Christmas holidays and prior to Chinese New Year holidays. In addition, the decrease of 3.20% is rather insignificant comparing to the increases for the previous three quarters, therefore doesn't affect the general upward trend of the sales value. As such, the Directors are of view, and we concur, that the jewelry, watches and clocks and valuable gifts sector is under a gradual recovery with room to grow as the sales value is yet to reach the pre-pandemic levels.

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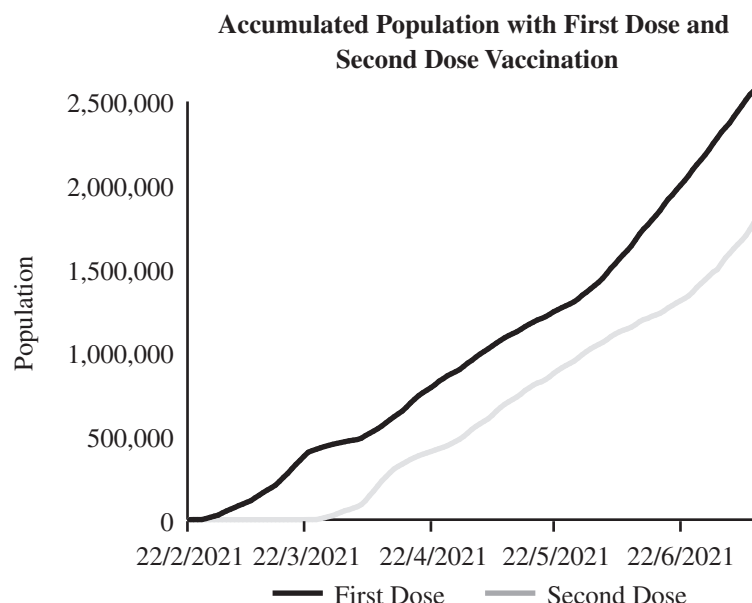
## LETTER FROM DONVEX CAPITAL

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(ii) *The dose count of COVID-19 vaccination in Hong Kong*

The prospect of the jewelry business of the Group depends largely on the tourism as discussed above and the containment of the pandemic. Additionally, the resumption of international travel and opening of borders highly rely on the number of people getting vaccinated. In light of the above, we have reviewed the number of people getting 1st and 2nd dose of vaccination in Hong Kong.

We are aware that the effect of vaccination is still subject to further data analysis and support. However, it is generally accepted among governments and medical experts that vaccination is an effective means to counter COVID-19. As such, we are of view that the number of people getting vaccinated would serve as a mere reference for the prospect of the jewelry business of the Group.



Source: Hong Kong Government website

The graph showed a solid increment in the number of people getting vaccinated for the first and second dose over approximately a 4-month period. As at the Latest Practicable Date, approximately 2.63 million people are vaccinated with the first dose of vaccine and approximately 1.83 million people are vaccinated with the second dose of vaccine.

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## LETTER FROM DONVEX CAPITAL

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Along with vaccination promotion efforts by the Hong Kong government and vaccination reward schemes provided by various private enterprises, the vaccinated population may go up even faster in the future. As the vaccinated population surges, the likelihood of the reopening of borders and the relaxation of quarantine and anti-pandemic measures would also increase, which would likely enlarge the number of tourist and local customers and boost the retail sector. The recovery of the retail sector would provide the Company an appropriate opportunity for the development of new gold jewelry products and expansion of sales network.

As such, we are of view that the increase in vaccinated population may contribute to the recovery of the retail sector and subsequently assist the expansion of the Group's jewelry business.

### ***General working capital***

As disclosed in the Letter from the Board, the Company considers that the Rights Issue provides a good opportunity for the Company to maintain sufficient working capital to meet the daily operation requirements. The Company intends to utilize approximately HK\$14.89 million of the total net proceeds for enhancing its operating cash flow to facilitate its daily operations, details of which are shown as follows:

	<i>HK\$'000</i>
Staff costs	8,820
Promotion and marketing expenses	3,300
Lease payment	1,400
Other operating expenses	<u>1,370</u>
Total	<u><u>14,890</u></u>

Considering the bank and cash balances of the Group amounted to approximately HK\$1.53 million as of 31 March 2021 and the need to maintain sufficient working capital for the business operation of the Group, we consider the Company's intention to use the proceeds and the amount of proceeds retained for daily operations fair and reasonable.

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## LETTER FROM DONVEX CAPITAL

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### ***Our view***

Taking into account the factors above, we concur with the Directors' view that the Rights Issues will enable the Group to (i) decrease the financial burdens of the Group by repaying the loan and interest; (ii) repay the overdue loans; and (iii) supplement sufficient working capital to cater for further expansion of the business. As such, we consider that the Rights Issue is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

### **4. Other fundraising alternatives**

As stated in the Letter from the Board, the Company has not conducted any equity fund raising activities in the past twelve months immediately preceding the date of the Placing Agreement and up to the Latest Practicable Date.

The Directors have considered other financing alternatives apart from Rights Issue such as debt financing, placing of new shares and open offer to meet the financial needs of the Group, if appropriate, taking into consideration the financial position, capital structure and cost of funding of the Group as well as the prevailing market condition.

### ***Debt financing***

The Directors have considered financing alternatives such as debt financing. The Directors advised us that the debt financing may not be feasible for the Group for the following reasons:

- (i) debt financing may further incur financial costs and increase the interest burden for the Group;
- (ii) the Group's financial risk would increase due to the increase in the leverage of the Group and the consistent loss-making performance; and
- (iii) the Group has also attempted to obtain other loan financing from independent third parties, but the interest rate offered is generally over 30% per annum.

In light of the above, we are of the view that debt financing is not a favourable fundraising method for the Group.

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## LETTER FROM DONVEX CAPITAL

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### ***Placing of new shares***

As for placement of new Shares, it would lead to immediate dilution in the shareholding interests of existing Shareholders without offering them the opportunity to maintain their shareholding interests in the Company. The Group would like to use this as a last resort, to only place Unsubscribed Rights Shares and/or the ES Unsold Rights Shares.

### ***Open Offer***

As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market.

Given that an open offer does not allow the trading of rights entitlements, Shareholders who do not wish to take up their entitlements will not be offered the opportunity to sell their entitled nil-paid Rights Shares on the market as compensation. We consider that the Rights Issue would be more favourable and attractive to the Shareholders than an open offer because it would allow the Shareholders to have more flexibility in dealing with the Shares and the nil-paid rights attaching thereto.

### ***Other benefits of the Rights Issue***

The Rights Issue is pre-emptive in nature, allowing Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation in the Rights Issue. The Rights Issue allows the Qualifying Shareholders to (i) increase their respective interests in the shareholding of the Company through application of excess Rights Shares; or (ii) reduce their respective interests in the shareholding of the Company by disposing of their rights entitlements in the open market.

### ***Conclusion***

Having considered the abovementioned financing alternatives and the Rights Issue allows Qualifying Shareholders to have more flexibility in dealing with the Shares and the nil-paid rights, we concur with the Directors' view that the Rights Issue is the most appropriate fundraising option over other fundraising alternatives under the current circumstances of the Group and in the best interests of the Company and the Shareholders as a whole.

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## LETTER FROM DONVEX CAPITAL

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### 5. Principal terms of the Rights Issue and the Placing Agreement

#### *The Proposed Rights Issue*

The Board proposed to raise up to approximately HK\$62.46 million on the basis of one (1) Rights Share for every one (1) Share held on the Record Date by issuing 624,637,750 Rights Shares at the Subscription Price of HK\$0.10 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date).

Further details of the Rights Issue are set out below:

#### *Issue statistics*

Basis of the Rights Issue	:	One (1) Rights Share for every one (1) Share held at the close of business on the Record Date
Subscription Price	:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	624,637,750 Shares
Number of Rights Shares	:	Up to 624,637,750 Rights Shares with an aggregate nominal value of approximately HK\$62.46 million, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of issued shares of the Company upon completion of the Rights Issue	:	Up to 1,249,275,500 Shares, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before the completion of the Rights Issue
Amount to be raised	:	Up to approximately HK\$62.46 million before expenses, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before the Record Date



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## LETTER FROM DONVEX CAPITAL

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As at the Latest Practicable Date, there are 59,056,660 outstanding Share Options, details of the outstanding Share Options are set out below:

<b>Date of grant</b>	<b>Exercisable period</b>	<b>Exercise price HK\$</b>	<b>Number of outstanding Share Options as at the Latest Practicable Date Shares</b>
13 May 2020	13 May 2020 to 12 May 2022	0.133	53,150,994
20 August 2020	20 August 2020 to 19 August 2022	0.370	5,905,666

Save for the aforesaid, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 100.00% of the Company's issued share capital as at the Latest Practicable Date and approximately 50% of the Company's issued share capital as enlarged by the allotment and issue of the Rights Shares immediately after completion of the Rights Issue assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue.

### *Non-underwritten basis*

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders will be placed to independent placees under the Compensatory Arrangements. Any Unsubscribed Rights Shares or ES Unsold Rights Shares remain not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue.

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## LETTER FROM DONVEX CAPITAL

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As the Rights Issue will proceed on a non-underwritten basis, the Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5) of the Listing Rules.

### ***The Placing Agreement***

On 16 June 2021 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the ES Unsold Rights Shares. Details of the Placing Agreement are as follows:

Date	:	16 June 2021 (after trading hours)
Issuer	:	The Company
Placing Agent	:	Sorrento Securities Limited was appointed as the Placing Agent to procure, on a best effort basis, Placees to subscribe for the Unsubscribed Rights Shares and the ES Unsold Rights Shares.

The Placing Agent confirmed that it is independent of and not connected with the Company and its connected persons or any of their respective associates.

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## LETTER FROM DONVEX CAPITAL

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Placing price of the Unsubscribed Rights Shares and/or and the ES Unsold Rights Shares	:	<p>The placing price of the Unsubscribed Rights Shares and/or the ES Unsold Rights Shares shall be not less than the Subscription Price.</p> <p>The final price determination is depended on the demand and market conditions of the Unsubscribed Rights Shares and/or the ES Unsold Rights Shares during the process of placement.</p>
Commission	:	<p>2.5% of the amount which is equal to the Placing Price multiplied by the Unsubscribed Rights Shares and ES Unsold Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement.</p> <p>The commission is not payable by the Company to the Placing Agent if the Placing Agreement has not become unconditional or is otherwise terminated in accordance with its terms.</p>
Placees	:	<p>The Unsubscribed Rights Shares and the ES Unsold Rights Shares are expected to be placed to the Placee(s) who and whose ultimate beneficial owner(s) shall not be the Shareholder(s) and shall be the Independent Third Party(ies).</p>
Ranking of Unsubscribed Rights Shares and the ES Unsold Rights Shares	:	<p>Unsubscribed Rights Shares and the ES Unsold Rights Shares (when placed, allotted, issued and fully paid) shall rank <i>pari passu</i> in all respects among themselves and with the Shares then in issue.</p>

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## LETTER FROM DONVEX CAPITAL

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Conditions Precedent : The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled (or being waived by the Placing Agent in writing, if applicable):

- (i) the Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in, the Rights Shares;
- (ii) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion; and
- (iii) the Placing Agreement not having been terminated in accordance with the provision thereof.

The Placing Agent may, in its absolute discretion, waive the fulfillment of all or any or any part of the conditions precedent to the Placing Agreement (other than those set out in paragraph (i) above) by notice in writing to the Company. As at the Latest Practicable Date, none of the above conditions precedent may be waived by the Company or the Placing Agent.

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## LETTER FROM DONVEX CAPITAL

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Termination : The Placing Arrangement shall end on 16 September 2021 or any other date by mutual written agreement between the Placing Agent and the Company.

The engagement of the Placing Agent may also be terminated by Placing Agent in case of force majeure resulting in the Company and the Placing Agent being unable to fulfill its duties and responsibilities under the engagement. However, if during the course of the engagement it has come to the Placing Agent's knowledge that there is any material adverse change in the business and operational environment in the Company which, in the sole opinion of the Placing Agent, may make it inadvisable to continue the engagement, the Placing Agent shall have the right to terminate the engagement by written notice to the Company with immediate effect.

Placing Completion : Completion is expected to take place within six Business Days after publication of an announcement by the Company of the number of the Unsubscribed Rights Shares and the ES Unsold Rights Shares under the Compensatory Arrangements and upon fulfilment or waiver (as the case may be) of the conditions precedent to the Placing Agreement or such other date as the Company and the Placing Agent may agree in writing.

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## LETTER FROM DONVEX CAPITAL

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The Company shall use its best endeavours to procure the fulfilment of such conditions precedent to the Placing Agreement by the Long Stop Date. If any of the conditions precedent to the Placing Agreement have not been fulfilled by the Long Stop Date or become incapable of being fulfilled (subject to the Placing Agent not exercising its rights to waive or extend the time for fulfilment of such conditions), then the Placing will lapse and all rights, obligations and liabilities of the Company and the Placing Agent in relation to the Placing shall cease and determine, save in respect of any accrued rights or obligations under the Placing Agreement or antecedent breach thereof.

### **6. Assessment of the principal terms of the Rights Issue**

#### ***The Subscription Price***

The Subscription Price for the Rights Shares is HK\$0.10 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, when a renouncee 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) a discount of approximately 12.28% to the closing price of HK\$0.1140 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 5.66% to the closing price of HK\$0.1060 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 2.91% to the theoretical ex-rights price of approximately HK\$0.1030 per Share based on the closing price of HK\$0.1060 per Share as quoted on the Stock Exchange on the Last Trading Day;

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## LETTER FROM DONVEX CAPITAL

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- (iv) a discount of approximately 2.34% to the average of the closing prices of HK\$0.1024 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 2.44% to the average of the closing prices of approximately HK\$0.1025 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 79.27% to the adjusted consolidated net asset value per consolidated share of approximately HK\$0.4825 (based on the unaudited consolidated net asset value of the Group as at 30 September 2020 of approximately HK\$301,383,000 and the number of issued shares, which is 624,637,750); or
- (vii) a discount of approximately 79.81% to the adjusted consolidated net asset value per consolidated share of approximately HK\$0.4954 (based on the audited consolidated net asset value of the Group as at 31 March 2021 of approximately HK\$309,437,000 and the number of issued shares, which is 624,637,750).

We note that the Subscription Price represents a discount of approximately 79.81% to the audited net asset value per Share as at 31 March 2021. Having considered the following, (i) the Shares have been trading at a deep discount for a prolonged period of time since the publication of the unaudited financial results for the six months ended 30 September 2020 up to the Last Trading Day; (ii) the prevailing market prices of the Shares have already reflected the market valuation of the Company in general; and (iii) the Subscription Price represents a discount of approximately only 2.44% of the average closing price of the Shares for the 10 consecutive trading days up to and including the Last Trading Day, we consider it is reasonable to make reference to the market price of the Shares, rather than the audited net asset value per Share, in determining the Subscription Price and that the discount of the Subscription Price to the audited net asset value per Share is justifiable.

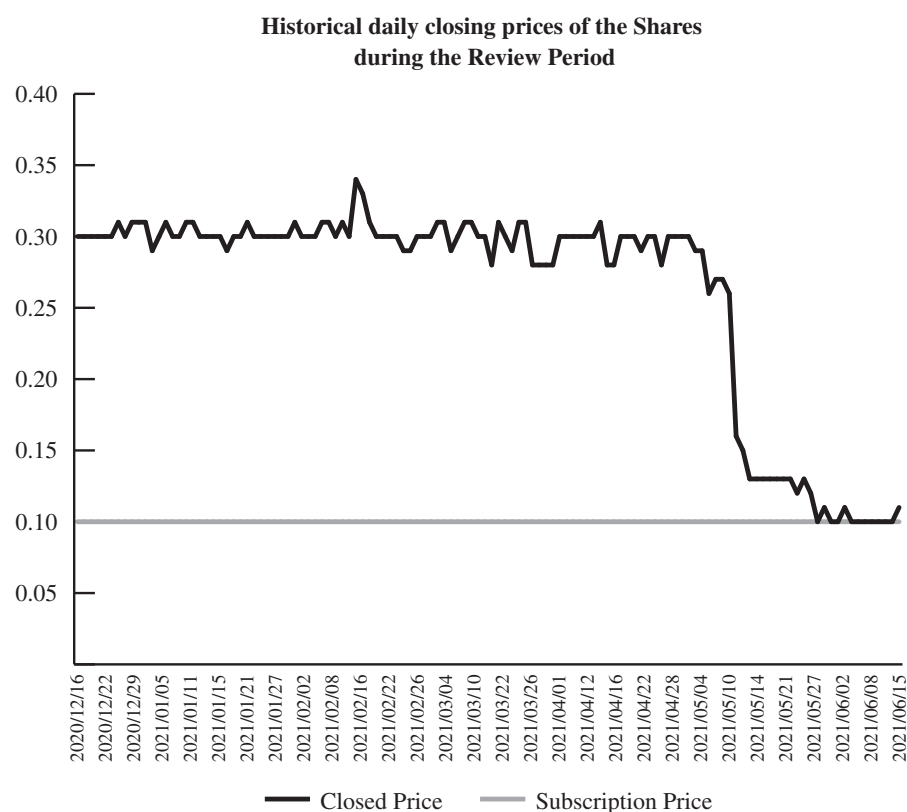
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## LETTER FROM DONVEX CAPITAL

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### *Historical price performance of the Company*

Set out below is a chart showing the movement of the daily closing prices of the Shares for the six-month period ended on and including the Last Trading Day (i.e. from 16 December 2020 to 16 June 2021) (the “**Review Period**”) and the comparison among the daily closing prices during the Review Period. This period represents a relatively stable recovery from COVID-19 and provides sufficient market data to evaluate the recent trend in stock price movement. We consider the Review Period adequate to reflect the general market sentiment and illustrate the general trend and level of movement of the daily closing price of the Shares before the Subscription Price was determined.



Source: Website of Stock Exchange



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## LETTER FROM DONVEX CAPITAL

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During the Review Period, the average closing price was approximately HK\$0.26 per Share. The daily closing price ranged from HK\$0.100 per Share (the “**Lowest Closing Price**”), as recorded on 8 June 2021 and 9 June 2021, to HK\$0.335 per Share, as recorded on 17 February 2021 (the “**Highest Closing Price**”) during the Review Period. The Subscription Price is equal to the Lowest Closing Price.

We note that the substantial fall in Share price on 11 May 2021 appeared to be associated with substantial trading volume of the Shares. The reason for the substantial fall in Share price on 11 May 2021 was unknown to us since:

- (i) the Directors were not aware of any reason for such fall in the Share price; and
- (ii) we have reviewed all the announcements disclosed between 11 May 2021 and the Last Trading Day, and we were not aware of any information which led to abrupt decrease of the Share prices during the aforementioned period.

To further assess the fairness and reasonableness of the Subscription Price, we have included a comparison with other rights issue exercises as discussed in further details in the paragraph headed “Comparison with other rights issue exercises” below.

### ***Comparison with other rights issue exercises***

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have formulated the following criteria in selecting the comparable transactions:

- (i) rights issue exercises executed by the companies listed on the Stock Exchange; and
- (ii) rights issue exercises announced since 1 February 2021 up to and including the Last Trading Day (the “**Comparable Review Period**”).

Based on the above, we have identified an exhaustive list of 21 rights issue exercises (the “**Comparable Transactions**”).

While the subject companies among the Comparable Transactions may have different principal business activities, market capitalisations, profitability and financial positions as compared to those of the Company, we are of the view that the Comparable Transactions can provide a reasonable reference as to how the market generally perceive rights issues. We also consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions of companies listed on the Stock Exchange conducting rights issue. We believe the list of Comparable Transactions is exhaustive.

## LETTER FROM DONVEX CAPITAL

Set out below is a summary of the Comparable Transactions:

Date of announcement	Name of company	Stock Code	Basis of entitlement	Premium/ (discount) of subscription price to/over the closing price on the last trading date prior to the release of the rights issue announcement %	Premium/ (discount) of subscription price to/over the theoretical ex-rights price on the last trading date prior to the release of the rights issue announcement %	Theoretical dilution effect %	Underwriting/ placing commission %
5-Feb-21	Bossini International Holdings Limited	592	1 for 2	(23.40)	(16.86)	8.47	– (Note 2)
17-Feb-21	China LotSynergy Holdings Limited	1371	2 for 1	(30.07)	(15.97)	23.93	– (Note 2)
19-Feb-21	Enterprise Development Holdings Limited	1808	1 for 2	(49.15)	(39.09)	16.38	1
26-Mar-21	Kaisa Group Holdings Limited	1638	1 for 7	(25.13)	(22.70)	3.44	2.5
29-Mar-21	China Demeter Financial Investments Limited	8120	3 for 1	(17.36)	(4.99)	15.29	–
8-Apr-21	State Energy Group International Assets Holdings Limited	918	3 for 1	(22.20)	(6.67)	19.00	1
9-Apr-21	Golden Power Group Holdings Limited	3919	1 for 2	(21.40)	(15.40)	NA (Note 1)	7.07
12-Apr-21	Merdeka Financial Group Limited	8163	5 for 2	(21.05)	(6.83)	8.54	2
23-Apr-21	PFC Device Inc.	8231	1 for 2	(20.00)	(14.29)	64.22	– (Note 2)
28-Apr-21	Sandmartin International Holdings Limited	482	1 for 2	(16.00)	(11.21)	5.33	2
4-May-21	China Investment Development Limited	204	1 for 2	(10.31)	(6.98)	3.56	2.5
4-May-21	Colpad Group Limited	2369	1 for 2	(41.10)	(31.70)	14.50	2.5
11-May-21	Great Wall Belt & Road Holdings Limited	524	1 for 4	(18.90)	(15.70)	NA (Note 1)	– (Note 2)
11-May-21	China Best Group Holding Limited	370	1 for 2	(45.20)	(37.89)	15.93	– (Note 2)
13-May-21	Ta Yang Group Holdings Limited	1991	1 for 2	(22.22)	(16.02)	7.39	– (Note 2)
18-May-21	Champion Technology Holdings Limited	92	3 for 1	8.70	2.04	– (Note 3)	2.5
20-May-21	China Internet Investment Finance Holdings Limited	810	1 for 2	(51.22)	(41.18)	NA (Note 1)	2.5
2-Jun-21	Vision Fame International Holdings Limited	1315	1 for 4	(60.78)	(55.36)	11.81	– (Note 2)
7-Jun-21	AL Group Limited	8360	3 for 1	(27.03)	(8.47)	20.27	1.5
11-Jun-21	Cool Link (Holdings) Limited	8491	1 for 2	(39.30)	(30.90)	13.20	2.5
11-Jun-21	Lai Sun Garment (International) Limited	191	1 for 2	(65.00)	(55.40)	21.70	1
			Average	(29.43)	(21.50)	16.06	2.18
			Median	(23.40)	(15.97)	14.50	2.25
			Minimum	(65.00)	(55.40)	3.44	Nil
			Maximum	8.70	2.04	64.22	7.07
			Company	(5.66)	(2.91)	2.83	2.50

Source: Stock Exchange website

Note 1: The theoretical dilution effect is not disclosed in the respective announcement.

Note 2: The respective fundraising exercise did not involve underwriters or placing agents.

Note 3: The fundraising exercise did not have theoretical dilution effect.

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## LETTER FROM DONVEX CAPITAL

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### *Analysis on the Subscription Price*

As shown in the above table, the Subscription Price of HK\$0.10 per Rights Share represents (a) a discount of approximately 5.66% to the closing price of HK\$0.1060 per Share as quoted on the Stock Exchange on the Last Trading Day (the “**LTD Discount**”); and (b) a discount of approximately 2.91% to the theoretical ex-rights price on the Last Trading Day prior to the release of the rights issue announcement (the “**Ex-rights Prices Discount**”). We noted that (i) the LTD Discount falls within the LTD Discount range of the Comparable Transactions; and (ii) the Ex-rights Prices Discount falls within the Ex-rights Prices Discount range of the Comparable Transactions.

While we noticed the ranges on the results of the LTD Discount and the Ex-rights Prices Discount are wide, we are of the view that the above ranges are meaningful for the assessment of the Subscription Price for the following reasons:

- (i) the Comparable Transactions fulfil the selection requirements as indicated above;
- (ii) the Comparable Transactions from the Comparable Review Period provide us the recent and relevant information to demonstrate the prevailing market practice prior to the Last Trading Day under the prevailing market conditions;
- (iii) Comparable Review Period represents a stable recovery after the vaccination program in Hong Kong rolled out as depicted in the section headed “The dose count of COVID-19 vaccination in Hong Kong” in this letter; and
- (iv) The Comparable Transactions are selected exhaustively.

As the ranges on the results of the LTD Discount and the Ex-rights Prices Discount are wide, we further analysed the reason behind the relatively small discounts the Company provided and found out that the relatively small discounts partly stemmed from the plunge of Share Price on 11 May 2021 and that the Shares were traded at around approximately HK\$0.3 prior the plummet as described in the section headed “Historical price performance of the Company” in this letter. That being said, although the Company is providing discounts lower than the average and median due to a substantial Share Price drop, the LTD Discount and Ex-rights Prices Discount still fall within the ranges of the Comparable Transactions.

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## LETTER FROM DONVEX CAPITAL

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### *Analysis on the theoretical dilution effect*

The theoretical dilution effect of the Comparable Transactions ranged from a premium of approximately 3.44% to a premium of approximately 64.22%, with an average premium of approximately 16.06% and a median premium of approximately 14.50%. In this regard, we noted that the theoretical dilution effect of the Rights Issue falls below the range of that of the Comparable Transactions and is in compliance with Rule 7.27B of the Listing Rules as such theoretical dilution effect is less than 25%.

### *Analysis on the underwriting/placing commission*

Pursuant to the Placing Agreement, the commission is 2.5% of the amount which is equal to the Placing Price multiplied by the Unsubscribed Rights Shares and ES Unsold Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement (the “**Placing Commission**”).

To assess the fairness and reasonableness of the Placing Commission, we have identified (a) the underwriting commission for those rights issue on underwritten basis; and (b) placing commission for those rights issue on non-underwritten basis of the Comparable Transactions (the “**Comparable Commissions**”). Given that both underwriting commission and placing commission are fees charged by underwriters or placing agents for procuring investors to subscribe for rights shares that are not taken up, we believe that the identified 21 Comparable Commissions as shown in the above table are exhaustive and are reasonable and sufficient for us to form a view on the fairness and reasonableness of the Placing Commission.

We noted that the Placing Commission of the Rights Issue of 2.50% falls within the range of the Comparable Commissions from nil to 7.07% but is above the average and median of the Comparable Commissions. Thus, we have conducted further analysis on the Placing Commissions, in particular the mode of the Comparable Commissions. Out of the 21 Comparable Commissions, we excluded the 7 transactions done without placing or underwriting. Out of the remaining 14 Comparable Commissions, 6 of the Comparable Commissions are at 2.5% which is also the mode of the Comparable Commissions, representing the most common commission used among the Comparable Transactions.

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## LETTER FROM DONVEX CAPITAL

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As such, having considered that the Placing Commission of the Rights Issue of 2.5%,

- (i) falls within the range of the Comparable Commissions; and
- (ii) equals the mode of 2.5% of the Comparable Commissions,

we consider that the Underwriting Commission pursuant to the Placing Agreement is fair and reasonable.

### *Conclusion*

Having considered that:

- (i) the LTD Discount falls within the LTD Discount range of the Comparable Transactions;
- (ii) the Ex-rights Prices Discount falls within the Ex-rights Prices Discount range of the Comparable Transactions;
- (iii) the ranges on the results of the LTD Discount and the Ex-rights Prices Discount are meaningful for the assessment of the Subscription Price;
- (iv) the theoretical dilution effect of the Rights Issue falls below the range of that of the Comparable Transactions and is in compliance with Rule 7.27B of the Listing Rules as such theoretical dilution effect is less than 25%; and
- (v) the Placing Commission of the Rights Issue of 2.50% falls within the range of the Comparable Commissions from nil to 7.07% and equals the mode of 2.5% of the Comparable Commissions,

we are of the view that the Subscription Price and the Placing Commission are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM DONVEX CAPITAL

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### 7. Potential dilution effect of the Rights Issue on shareholding interests

As at the Latest Practicable Date, the Company has 624,637,750 Shares in issue. On the assumption that there is no change in the shareholding structure of the Company from the Latest Practicable Date to completion of the Rights Issue other than the allotment and issue of Rights Shares pursuant to the Rights Issue, the table below depicts, for illustrative purposes only, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders; and (iii) immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and all Unsubscribed Rights Shares and ES Unsold Rights Shares have been placed by the Placing Agent:

	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders		Immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and all Unsubscribed Rights Shares and ES Unsold Rights Shares have been placed by the Placing Agent	
	<i>Number of Shares</i>	<i>Approx. % (Note)</i>	<i>Number of Shares</i>	<i>Approx. % (Note)</i>	<i>Number of Shares</i>	<i>Approx. % (Note)</i>
Ms. Guo Sha	47,000,000	7.52	94,000,000	7.52	47,000,000	3.76
Ms. Dong Qian	40,000,000	6.40	80,000,000	6.40	40,000,000	3.20
Public Shareholders	537,637,750	86.08	1,075,275,500	86.08	537,637,750	43.04
Independent places	—	—	—	—	624,637,750	50.00
<b>Total</b>	<b>624,637,750</b>	<b>100.00</b>	<b>1,249,275,500</b>	<b>100.00</b>	<b>1,249,275,500</b>	<b>100.00</b>

*Note:* Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

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## LETTER FROM DONVEX CAPITAL

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As shown in the table above, the Rights Issue will cause a dilution effect to the Shares. However, taking into account (i) the benefits brought by the Rights Issue discussed under the section headed “Reasons for and benefits of the Rights Issue and use of proceeds” in this letter; (ii) it would be less optimal for the Group to raise funds through other means of financing as discussed under the section headed “Other fundraising alternatives” in this letter; and (iii) the financial impacts of the Rights Issue discussed under the section headed “Financial impacts of the Rights Issue” below, we are of view that the Rights Issue is fair and reasonable so far as the Company and the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole.

### **8. Financial impacts of the Rights Issue**

#### ***Earnings***

Following the completion of the Rights Issue, assuming all the Rights Shares will be issued in full, the repayment of loans will save the Company an aggregate finance costs of approximately HK\$0.48 million annually. As such, it will reduce the finance costs and bring a positive impact on the earnings of the Company.

#### ***Liquidity***

As stated in the Letter from the Board, the cash and cash balances of the Company was approximately HK\$1.53 million as at 31 March 2021, and the net proceeds from the Rights Issue will be applied to repay a loan and serve as general working capital, which will improve the Company’s liquidity upon completion of the Rights Issue.

Although the aforementioned analysis is for illustrative purpose and do not represent how the financial position of the Group will be upon completion of the Rights Issue, we are of the view that the improvement in the liquidity and financial position of the Group upon completion of the Rights Issue is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM DONVEX CAPITAL

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### RECOMMENDATION

Having taken into account the above principal factors and reasons discussed above, we are of the opinion that the Rights Issue and the transactions contemplated thereunder are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed to approve the Rights Issue at the SGM.

Yours faithfully,  
For and on behalf of  
**Donvex Capital Limited**  
**Doris Sy**  
*Director*

*Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Donvex Capital Limited who has over 19 years of experience in corporate finance industry.*



**1. FINANCIAL INFORMATION OF THE GROUP**

Details of the audited financial information of the Group for each of the years ended 31 March 2019, 2020 and 2021 and the unaudited financial information of the Group for the six months ended 30 September 2020 are disclosed in the following annual reports of the Company for the years ended 31 March 2019 and 2020, results announcement of the Company for the year ended 31 March 2021 and interim report for the six months ended 30 September 2020 respectively which have been published and are available on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and of the Company ([www.986.com.hk](http://www.986.com.hk)):

- (a) the annual report of the Company for the year ended 31 March 2019 published on 30 July 2019 (pages 44 to 142) in relation to the financial information of the Group for the same year (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0730/ltn20190730239.pdf>);
- (b) the annual report of the Company for the year ended 31 March 2020 published on 30 July 2020 (pages 53 to 156) in relation to the financial information of the Group for the same year (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0730/2020073000722.pdf>);
- (c) the results announcement of the Company for the year ended 31 March 2021 published on 30 June 2021 (pages 1 to 23) in relation to the financial information of the Group for the same year (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0630/2021063002595.pdf>);
- (d) the interim report of the Company for the six months ended 30 September 2020 published on 3 December 2020 (pages 19 to 56) in relation to the financial information of the Group for the same period (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1203/2020120300956.pdf>).

**2. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 May 2021, being the latest practicable 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 are as follows:

HK\$'000

**Current**

Amount due to a director – unsecured and unguaranteed	1,659
Other borrowings – unsecured and unguaranteed	6,489
Lease liabilities	191

**Non-current**

Principal amount of unconvertible bonds – unsecured and unguaranteed	<u>20,000</u>
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Total	<u><u>28,339</u></u>
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Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, normal trade and other payables and contract liabilities, as at 31 May 2021, 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 31 May 2021; (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. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirm that there have been no material adverse changes in the financial or trading position of the Group since 31 March 2021 (being the date to which the latest published audited consolidated financial information of the Group were made up).

**4. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that in the absence of unforeseeable circumstances, taking into account the financial resources available to the Group and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital for its present requirements for at least the next twelve (12) months following the date of this circular.

**5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Company, along with its subsidiaries, is principally engaged in the businesses of design, OEM and marketing of jewelry and Money Lending.

For the year ended 31 March 2021, the Group's revenue from continuing operations was approximately HK\$105.65 million (2020: approximately HK\$90.54 million), representing an increase of approximately HK\$15.11 million or 16.68% as compared with last year. The profit for the year ended 31 March 2021 of the Group was approximately HK\$4.45 million as compared to the loss from continuing operations and the loss from discontinued operation were approximately HK\$27.82 million and HK\$1.59 million, respectively, for the year ended 31 March 2020.

As set out in the 2020/21 Annual Results, the severe outbreak of COVID-19 since January 2020, various regions were under extensive lockdown and various levels of restrictions on public and business activities. The implementation of social distancing and quarantine measures in many countries worldwide have dampened consumer sentiment and brought the international tourism to a standstill, plunging the global economy into recession.

According to the statistics from Hong Kong Census and Statistics Department, despite the retail sales of the jewelry, watches and clocks, and valuable gifts in Hong Kong decreased by approximately 38.44% from approximately HK\$51,984 million for the 12 months ended 31 March 2020 to HK\$32,003 million for the 12 months ended 31 March 2021, the retail sales of the jewelry, watches and clocks, and valuable gifts category has started to recover since September 2020 in Hong Kong. In light of vaccine rollouts, control of the COVID-19 pandemic is expected in the future, which in turn will boost consumption sentiment. The Directors believe the design, OEM and marketing of jewelry business will rebound quickly once border shutdowns are lifted as the pandemic eases.

The Group intends to expand its design, OEM and marketing of jewelry business by development of new jewelry and expansion of its sales network in various retail stores in Hong Kong after receiving proceeds from the Rights Issue. The Company believes that this sales and development plan is in line with the abovementioned strategy and would broaden the Group's market to capture more business opportunities.

The Directors will continue to enhance the Group's businesses through review of its existing business portfolio from time to time and also seek suitable investment opportunities in the long run so as to broaden the source of income of the Group and diversify the Group's business portfolio on an on-going basis.

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

The following unaudited pro forma statement of adjusted consolidated net tangible assets 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 assets of the Group as at 31 March 2021 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 assets of the Group attributable to the owners of the Company as at 31 March 2021 or at any future date; and

The Unaudited Pro Forma Financial Information of the Group as at 31 March 2021 is prepared by the Directors based on the audited consolidated statement of financial position of the Group as at 31 March 2021, extracted from the published results announcement of the Group for the year ended 31 March 2021, with adjustments described below.

			Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as at 31 March 2021	Audited consolidated net tangible assets attributable to owners of the Company per Share as at 31 March 2021	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as at 31 March 2021
	Audited consolidated net tangible assets attributable to owners of the Company as at 31 March 2021	Unaudited estimated net proceeds from the Rights Issue	immediately after the completion of the Rights Issue	31 March 2021 before the completion of the Rights Issue	immediately after the completion of the Rights Issue
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000	HK\$ (Note 3)	HK\$ (Note 4)
Based on 624,637,750 Rights Shares to be issued at the Subscription Price of HK\$0.10 per Rights Share	304,877	60,114	364,991	0.49	0.29

*Notes:*

1. The consolidated net tangible assets of the Group attributable to owners of the Company of approximately HK\$304,877,000 as at 31 March 2021 is based on the consolidated net assets of the Group attributable to owners of the Company as at 31 March 2021 of approximately HK\$309,437,000 after deducting intangible assets of approximately HK\$4,560,000 which represents the goodwill and right-of-use assets of the Group as at 31 March 2021 amounted to approximately HK\$4,189,000 and HK\$371,000, respectively, as extracted from the results announcement of the Company for the year ended 31 March 2021.
2. The estimated net proceeds from the Rights Issue of approximately HK\$60,114,000 are based on 624,637,750 Rights Shares to be issued at the Subscription Price of HK\$0.10 per Rights Share and after deducting estimated related expenses, including among others, placing commission, legal and professional fees, which are directly attributable to the Rights Issue, of approximately HK\$2,350,000.
3. The calculation of audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2021 per Share before the completion of the Rights Issue is based on the audited consolidated net tangible assets of the Group as at 31 March 2021 of approximately HK\$304,877,000, divided by 624,637,750 Shares in issue as at 31 March 2021.
4. The calculation of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2021 per Share immediately after the completion of the Rights Issue is based on unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2021 immediately after the completion of the Rights Issue of approximately HK\$364,991,000, being the aggregate unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2021 of approximately HK\$304,877,000 and the estimated net proceeds from the Rights Issue of approximately HK\$60,114,000, divided by 1,249,275,500 Shares which represents the sum of 624,637,750 Shares in issue and 624,637,750 Rights Shares (assuming no new shares are issued and no repurchase of shares on or before the Record Date) were issued immediately after the completion of the Rights Issue, as if the Rights Issue had been completed on 31 March 2021.
5. Save as disclosed above, no adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2021.

**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.



3th Floor  
Winbase Centre  
208 Queen's Road Central,  
Hong Kong

16 July 2021

The Board of Directors of  
China Environmental Energy Investment Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Environmental Energy Investment 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 assets as at 31 March 2021 and related notes as set out on pages II-1 to II-2 of the circular issued by the Company dated 16 July 2021 (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 one rights share for each existing share at the subscription price of HK\$0.10 per rights share (the “**Rights Issue**”) on the Group's consolidated financial position as at 31 March 2021 as if the Rights Issue had taken place on 31 March 2021. As part of this process, information about the Group's net tangible assets as at 31 March 2021 has been extracted by the directors from the Group's consolidated statement of financial position as at 31 March 2021, included in the results announcement of the Group for the year ended 31 March 2021.

**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 31 March 2021 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 AND OPTIONS****(a) Share capital**

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately following the completion of the Rights Issue (assuming there is no change in the issued share capital of the Company, on or before the Record Date) are as follows:

**(I) As at the Latest Practicable Date**

<i>Authorised: HK\$</i>		
<u>10,000,000,000</u>	Shares of HK\$0.10 each	<u>1,000,000,000</u>
<i>Issued and fully-paid:</i>		
<u>624,637,750</u>	Shares of HK\$0.10 each	<u>62,463,775</u>

**(II) Immediately following the completion of the Rights Issue**

<i>Authorised: HK\$</i>		
<u>10,000,000,000</u>	Shares of HK\$0.10 each	<u>1,000,000,000</u>
<i>Issued and fully-paid:</i>		
624,637,750	Shares of HK\$0.10 each	62,463,775
	Rights Shares to be issued	
<u>624,637,750</u>	pursuant to the Rights Issue	<u>62,463,775</u>
	Shares in issue immediately after	
<u>1,249,275,500</u>	completion of the Rights Issue	<u>124,927,550</u>

All of the Rights Shares to be issued will rank *pari passu* in all respects with each other. Holder of the Rights Shares in their fully-paid form will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the fully-paid Rights Shares. The Rights Shares to be issued will be listed on the Stock Exchange.

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

The Rights Shares to be issued will be listed on the Stock Exchange. 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.

**(b) Share Options**

Details of the outstanding Share Options as at the Latest Practicable Date were as follows:

Name of grantee	Number of underlying Shares subject to outstanding Share Options	Date of grant	Exercise price (HK\$ per Share)	Exercise Period
<b>Director</b>				
Ms. Zhou Yaying	5,905,666	20 August 2020	0.370	20 August 2020 to 19 August 2022
Employees	53,150,994	13 May 2020	0.133	13 May 2020 to 12 May 2022
Total	<u>59,056,660</u>			

Save as disclosed above, as at the Latest Practicable Date, the Company did not have any other options, warrants or other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

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

### 3. INTEREST IN SECURITIES

#### (a) Directors' and chief executive's interests

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or are 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, to be notified to the Company and the Stock Exchange.

Name of Director	Capacity	Number of issued Shares held	Interest in underlying of Share Options	Approximate percentage of total issued shares
Ms. Zhou Yaying	Beneficial owner	4,371,386	5,905,666	1.65%

*Notes:*

The percentage of interest in the Company is calculated by reference to the number of ordinary shares in issue as at 31 March 2021, that is 624,637,750 ordinary shares of the Company.

#### (b) Interests of substantial shareholders

Save as disclosed below, as at the Latest Practicable Date, the Company had not been notified by any corporation which or persons who (other than a Director or the chief executive of the Company) who had interests or short positions in the shares or underlying Shares, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

Name of Shareholders	Capacity	Number of issued Shares held	Approximate percentage of total issued shares
Ms. Guo Sha	Beneficial owner	47,000,000	8.28%
Ms. Dong Qian	Beneficial owner	40,000,000	7.04%

*Notes:*

The percentage of interest in the Company is calculated by reference to the number of ordinary shares in issue as at 31 March 2021, that is 624,637,750 ordinary shares of the Company.

#### 4. DIRECTORS' SERVICE CONTRACTS

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

#### 5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business which competed, or might compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

#### 6. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (b) none of the Directors had any direct and indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2021, being the date to which the latest published audited financial statements of the Company were made up.

**7. MATERIAL LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

**8. 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:

- (a) the Placing Agreement;
- (b) Third supplemental agreement for very substantial disposal in relation to the disposal of 25.88% issued share capital of Pure Power Holdings Limited dated 30 September 2019;
- (c) Second supplemental agreement for very substantial disposal in relation to the disposal of 25.88% issued share capital of Pure Power Holdings Limited dated 6 September 2019;
- (d) Supplemental agreement for very substantial disposal in relation to the disposal of 25.88% issued share capital of Pure Power Holdings Limited dated 9 August 2019;
- (e) Fifth supplemental agreement for major transaction in relation to the disposal of 23.53% issued share capital of Pure Power Holdings Limited dated 31 July 2019; and
- (f) Fourth supplemental agreement for major transaction in relation to the disposal of 23.53% issued share capital of Pure Power Holdings Limited dated 28 June 2019.

**9. EXPENSES**

The expenses in connection with the Rights Issue, including financial advisory fees, placing commission (assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and placing all Unsubscribed Rights Shares and ES Unsold Rights Shares by Placing Agent), printing, registration, translation, legal and accountancy charges are estimated to be up to approximately HK\$2.35 million, which are payable by the Company.

**10. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE****Board of Directors**

**: Ms. Zhou Yaying**  
Room 101, No. 15, Lane 700,  
Lianhuashan Road,  
Baoshan District, Shanghai,  
the People's Republic of China

**Mr. Wei Liang**  
No. 19, Liudong Village,  
Chenping Village,  
Chenping Township,  
Binyang County,  
Guangxi Province,  
the People's Republic of China

**Mr. Tang Wing Cheung Louis**  
Flat 4, 29/F., Fai Ming House,  
Chung Ming Court,  
Tseung Kwan O,  
New Territories, Hong Kong

**Mr. Tse Kwong Chan**  
Room 75, 7/F., Block D,  
Luso Apts, 5 Warwick Road,  
Kowloon Tong, Hong Kong

**Mr. Yiu To Wa**  
Flat E, 19/F.,  
Building 13, Laguna City,  
Lam Tin,  
Kowloon, Hong Kong

**Mr. Lau Leong Yuen**  
Flat 1, 32/F., Oi Tao House,  
Tin Oi Court, Tin Shui Wai,  
New Territories, Hong Kong

**Mr. Hong Hui Lung**  
Flat F, 10/F., Block 3,  
The Victoria Towers,  
188 Canton Road, Tsim Sha Tsui,  
Kowloon, Hong Kong



<b>Registered office</b>	:	Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda
<b>Head office and principal place of business</b>	:	Room 910, 9/F., Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong
<b>Placing Agent</b>	:	<b>Sorrento Securities Limited</b> 11/F, The Wellington, 198 Wellington Street, Central, Hong Kong
<b>Financial advisers to the Company</b>	:	<b>Sorrento Capital Limited</b> 11/F, The Wellington, 198 Wellington Street, Central, Hong Kong
<b>Independent financial adviser to the Independent Board Committee and the Independent Shareholders</b>	:	<b>Donvex Capital Limited</b> Unit 2502, 25/F, Carpo Commercial Building, 18-20 Lyndhurst Terrace, Central, Hong Kong
<b>Legal adviser to the Company as to Hong Kong law in relation to the Rights Issue</b>	:	<b>Khoo &amp; Co.</b> 15/F & 16/F (Reception), Tern Centre Tower 2, 251 Queen's Road Central, Hong Kong
<b>Reporting accountants</b>	:	<b>McMillan Woods (Hong Kong) CPA Limited</b> 3/F., Winbase centre, 208 Queen's Road Central, Hong Kong

<b>Principal bankers in Hong Kong</b>	:	<b>China Construction Bank (Asia) Corporation Limited</b> 19th floor, CCB Centre, 18 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong  <b>Industrial and Commercial Bank of China Limited</b> 33rd floor, ICBC Tower, 3 Garden Road, Central, Hong Kong  <b>CMB Wing Lung Bank Limited</b> 45 Des Voeux Road Central, Central, Hong Kong
<b>Principal share registrar and transfer office</b>	:	<b>MUFG Fund Services (Bermuda) Limited</b> 4th floor, North Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda
<b>Hong Kong branch share registrar and transfer office</b>	:	<b>Union Registrars Limited</b> Suites 3301-04, 33/F. Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong
<b>Company secretary</b>	:	<b>Mr. Chan Kin Ming</b> Room 910, 9/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong
<b>Authorised representatives</b>	:	<b>Ms. Zhou Yaying</b> Room 101, No. 15, Lane 700, Lianhuashan Road, Baoshan District, Shanghai, the People's Republic of China  <b>Mr. Chan Kin Ming</b> Room 910, 9/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong

**11. AUDIT COMMITTEE**

As at the Latest Practicable Date, the audit committee of the Board (the “**Audit Committee**”) comprised all of the independent non-executive Directors, namely Mr. Yiu To Wa (the Chairman of the Audit Committee), Mr. Tse Kwong Chan, Mr. Lau Leong Yuen and Mr. Hong Hui Lung. 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, Senior Management and Company Secretary” 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 preliminary quarterly results, interim results and annual results and to monitor compliance with statutory and listing requirements.

**12. EXPERTS AND CONSENTS**

The following are the qualifications of the experts who have given opinions or advice, which are contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Donvex Capital	A corporation licensed by the SFC to carry out type 6 (advising on corporate finance) regulated activity under the SFO
McMillan Woods (Hong Kong) CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the above experts:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinions or advice and references to its name, in the form and context in which they appear;
- (b) did not have any shareholding, directly or indirectly, 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; and
- (c) did not have any direct or indirect interest in any assets which had been 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 since 31 March 2021, being the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, each of the above experts was not materially interested, directly or indirectly, in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

**13. PARTICULARS OF THE DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY****Executive Directors**

Ms. Zhou Yaying (“**Ms. Zhou**”), aged 38, is the Chairman of the Board and a member of the executive committee of the Board (the “**Executive Committee**”), the remuneration committee of the Board (the “**Remuneration Committee**”) and the nomination committee of the Board (the “**Nomination Committee**”). She joined the Group in April 2018. She has over 15 years of experiences of business management, business strategy formulation, sales and marketing and human resources.

Mr. Wei Liang (“**Mr. Wei**”), aged 43, is the Chief Executive Officer of the Company and a member of the Executive Committee. He joined the Group in May 2018. He has over 20 years of experiences of business management, trading, and property investment.

Mr. Tang Wing Cheung Louis (“**Mr. Tang**”), aged 58, is an executive director and a member of the Executive Committee of the Company. He joined the Group in May 2018. He graduated from Florida International University in the United States of America in 1984 with bachelor degree in hotel management. Mr. Tang has over 10 years of experience in management, investment and provision of financial services.

**Independent non-executive Directors**

Mr. Tse Kwong Chan (“**Mr. Tse**”), aged 51, is an independent non-executive director, the chairman of the Remuneration Committee and a member of both the Audit Committee and the Nomination Committee of the Company. He joined the Company in March 2011. He graduated from Dawson College, Canada with a degree majoring in Mathematics in 1991. Mr. Tse has over 20 years of working experience in the area of sales and marketing and management.

Mr. Yiu To Wa (“**Mr. Yiu**”), aged 38, is an independent non-executive director, the Chairman of the Audit Committee and Nomination Committee. He joined the Group in July 2017. He obtained his bachelor degree of business administration in professional accountancy program from The Chinese University of Hong Kong in 2005 and has been a certified public accountant of Hong Kong Institute of Certified Public Accountants since 2008. Mr. Yiu has over 10 years of experience in financial accounting and auditing of listed companies in Hong Kong. Mr. Yiu has appointed as an Independent non-executive director of Yuk Wing Group Holdings Limited, which are listed on the Stock Exchange (Stock Code: 1536), with effect from 27 May 2020. Mr. Yiu has also appointed as an executive director of DeTai New Energy Group Limited, which are listed on the Stock Exchange (Stock Code: 559), with effect from 27 May 2021.

Mr. Lau Leong Yuen (“**Mr. Lau**”), aged 36, is an independent non-executive director, the member of the Audit Committee and Remuneration Committee. He joined the Group in July 2017. He obtained a bachelor degree of engineering in electronic and communication from the City University of Hong Kong in 2008 and a master degree of science in E-Commerce from the Hong Kong Polytechnic University in 2011. Mr. Lau is currently a senior information technology analyst in a leading air cargo terminal operator in Hong Kong. Mr. Lau has over 10 years of experience in software engineering and information technology system development. Mr. Lau is currently also an Independent non-executive director of Yuk Wing Group Holdings Limited, which are listed on the Stock Exchange (Stock Code: 1536).

Mr. Hong Hui Lung (“**Mr. Hong**”), aged 52, is an independent non-executive director, the member of Audit Committee. He joined the Group in February 2021. He obtained a bachelor degree in science from The University of Hong Kong in 1992. After graduation, Mr. Hong had worked in an international audit firm. Mr. Hong has professional expertise and extensive experience in investment banking for about 16 years. Mr. Hong has also participated as speakers of professional trainings and seminars regarding the regulation, landscape and development of Hong Kong and China capital markets. Mr. Hong is a fellow member of the Association of Chartered Certified Accountants.

#### **Senior Management**

Ms. Chen Tong (“**Ms. Chen**”), aged 57, was the executive director of the Company from 15 December 2010 to 10 October 2017 and re-designated as General Manager on that day. She joined the Group in December 2010. Ms. Chen graduated from Tongji University in 2002 with a bachelor’s degree in administrative management. She is currently the vice general manager of a logistic company in the PRC. She has over 20 years experience in the banking industry and is an economist.

#### **Company Secretary**

Mr. Chan Kin Ming (“**Mr. Chan**”) was appointed as the company secretary of the Company in May 2018. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor’s degree in accounting. Mr. Chan has over 10 years of experience in auditing and finance.

### **14. MISCELLANEOUS**

- (a) As at the Latest Practicable Date, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

**15. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. (except Saturdays, Sundays and public holidays) at Room 910, 9/F., Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong, for a period of 14 days from the date of this circular (both days inclusive):

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual report of the Company for the year ended 31 March 2019;
- (c) the annual report of the Company for the year ended 31 March 2020;
- (d) the interim report of the Company for the six months ended 30 September 2020;
- (e) the results announcement of the Company for the year ended 31 March 2021;
- (f) the Placing Agreement;
- (g) Optionholder's Undertakings;
- (h) the letter from the Board, the text of which is set out on pages 11 to 35 of this circular;
- (i) the letter from the Independent Board Committee, the text of which is set out on page 36 of this circular;
- (j) the letter from Independent Financial Advisor, the text of which is set out on pages 37 to 70 of this circular;
- (k) the accountant's report on the unaudited pro forma financial information of the Group issued by McMillan Woods (Hong Kong) CPA Limited, the text of which is set out in Appendix II to this circular;
- (l) the material contracts (including the Placing Agreement) as referred to in the section headed "8. Material contracts" in this appendix;
- (m) the written consent referred to in the section headed "11. Experts and consents" in this appendix; and
- (n) this circular.

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## NOTICE OF SGM

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### China Environmental Energy Investment Limited

中國環保能源投資有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 986)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**SGM**”) of China Environmental Energy Investment Limited (the “**Company**”) will be held at 10:30 a.m. on Thursday, 5 August 2021 at Falcon Room I, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments the following resolution which will be proposed as ordinary resolution of the Company:

#### ORDINARY RESOLUTION

“**THAT** conditional upon: (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Rights Shares (as defined below) to be allotted and issued to the shareholders of the Company (the “**Shareholders**”) pursuant to the terms and conditions of the Rights Issue (as defined below); and (ii) satisfaction of all conditions as set out in the paragraph headed “**Conditions of the Rights Issue**” in the letter from the board of the circular of the Company dated 16 July 2021 (the “**Circular**”) becoming unconditional and not being terminated in accordance with its terms:

- (a) the issue by way of rights issue (the “**Rights Issue**”) of 624,637,750 ordinary shares (the “**Rights Shares**”) at the subscription price of HK\$0.10 per Rights Share to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the register of members of the Company on the date by reference to which entitlement under the Rights Issue will be determined (other than those shareholders (the “**Excluded Shareholders**”) with registered addresses outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of one (1) Rights Share for every one (1) Share of the Company then held on the Record Date at the subscription price of HK\$0.10 per Rights Share and otherwise on the terms and conditions set out in the Circular be and is hereby approved;

\* For identification purposes only

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## NOTICE OF SGM

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- (b) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to the Rights Issue notwithstanding the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to the Excluded Shareholders as they may deem necessary, desirable or expedient having regard to any restrictions or obligations under the memorandum of association and bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong, and to do all such acts and things as they consider necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (c) the Directors be and are hereby authorised to sign or execute such documents and do all such acts and things in connection with the allotment and issue of the Rights Shares and the implementation of the Rights Issue, necessary desirable or expedient to carry out, to give effect to or in connection with the Rights Issue or any transaction contemplated thereunder.”

Yours faithfully,

For and on behalf of the Board of

**China Environmental Energy Investment Limited**

**Zhou Yaying**

*Chairman*

Hong Kong, 16 July 2021

*Notes:*

1. A form of proxy for use at the SGM is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney duly authorised.
3. Any shareholder of the Company entitled to attend and vote at the SGM convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote on behalf of him. A proxy needs not be a shareholder of the Company. A shareholder of the Company who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy are so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.



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## NOTICE OF SGM

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4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of attorney or authority, must be deposited at the Hong Kong branch share registrar of the Company, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time appointed for holding of the above SGM or any adjournment thereof at which the person named in the form of proxy proposes to vote or, in the case of a poll taken subsequently to the date of the SGM or any adjournment thereof, not less than 24 hours before the time appointed for the taking of the poll and in default the form of proxy shall not be treated as valid.
5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the SGM convened or at any adjourned meeting (as the case may be) and in such event, the form of proxy will be deemed to be revoked.
6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such joint holders are present at the SGM, whether in person or by proxy, priority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.
7. In order to determine the right to attend the SGM, the register of members of the Company will be closed from Friday, 30 July 2021 to Thursday, 5 August 2021 (both days inclusive), during which no transfer of Shares can be registered. To qualify for the attendance and voting at the SGM, shareholders of the Company must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 29 July 2021.
8. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning or "extreme conditions after super typhoons" announced by the Government of Hong Kong is/are in effect any time after 8:00 a.m. on the date of the SGM, the SGM will be postponed.
9. In view of the recent development of the COVID-19 pandemic, and in order to better protect the safety and health of the Shareholders, the Company will not serve refreshments at the SGM to avoid the coming into close contact amongst participants at the SGM. The Company wishes to remind the Shareholders and other participants who will attend the SGM in person to take personal precautions and abide by the requirements of pandemic precaution and control at the venue of the SGM. The Company also advises the Shareholders to attend and vote at the SGM by way of non-physical presence. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the SGM, and appoint the chairman of the SGM as a proxy to vote on relevant resolution as instructed in accordance with the relevant proxy form instead of attending the SGM in person. For details, please refer to the proxy form of the SGM. The Company will keep monitoring the evolving COVID-19 situation and may implement additional measures which, if any, will be announced closer to the date of the SGM.

*As at the date of this notice, the Board comprises three executive Directors, namely Ms. Zhou Yaying, Mr. Wei Liang and Mr. Tang Wing Cheung Louis; and four independent non-executive Directors, namely Mr. Tse Kwong Chan, Mr. Yiu To Wa, Mr. Lau Leong Yuen and Mr. Hong Hui Lung.*