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中國升海集團有限公司
China Shenghai Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1676)

COMPLETION OF SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

Reference is made to the announcement (the “**Announcement**”) of China Shenghai Group Limited (the “**Company**”) dated 5 November 2021 in relation to the subscription of new shares under general mandate. Unless otherwise stated, capitalised terms and expressions used herein shall have the same meanings as those defined in the Announcement.

COMPLETION OF THE SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

The Board is pleased to announce that all the conditions precedent of the Subscription had been fulfilled and completion of the Subscription took place on 17 November 2021 in accordance with the terms and conditions of the Subscription Agreement. An aggregate of 8,000,000 Subscription Shares, representing (a) approximately 8.0% of the existing issued share capital of the Company immediately prior to the completion of the Subscription; (b) approximately 7.41% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, have been allotted and issued by the Company to the Subscriber at the Subscription Price pursuant to the terms and conditions of the Subscription Agreement.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, (i) the Subscriber is an Independent Third Party; and (ii) the Subscriber has not become a substantial shareholder of the Company immediately upon completion of the Subscription.

EFFECTS OF SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below are the shareholding structure of the Company (i) immediately before the completion of the Subscription; and (ii) immediately upon completion of the Subscription:

	As at the date of this announcement		Immediately after issue of the Subscription Shares	
	Shares	Approximate %	Shares	Approximate %
Precisely Unique Limited (Note 1)	52,500,000	52.50	52,500,000	48.61
The Subscriber	-	-	8,000,000	7.41
Public Shareholders	47,500,000	47.50	47,500,000	43.98
Total	100,000,000	100.00	108,000,000	100.00

Note:

1. The entire issued share capital of Precisely Unique Limited is legally and beneficially owned by Mr. Liu Rongru, an executive Director of the Company, who is deemed to be interested in the Shares held by Precisely Unique Limited

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Board considers that the Subscription allows the Company to enter into a strategic relationship with the Subscriber, who is experienced in the trading industry in Hong Kong and the PRC.

The Subscriber is the ultimate shareholder as well as the chairman of the board of CN Logistics International Holdings Limited, a company listed on the Stock Exchange (stock code: 2130) (“CN Logistics”). He also served as an independent non-executive director of Golden Eagle Retail Group Limited (stock code: 3308) and Nanjing Sample Technology Company Limited (stock code: 1708), from February 2006 to May 2011 and from August 2003 to May 2011, respectively. Additionally, he is also the founder and has been the executive chairman and executive director of eCargo Holdings Limited, a company listed on the Australian Securities Exchange (ASX: ECG).

Considering the background, experience and the financial resources of the Subscriber, the Subscription will not only strengthen the shareholder base of the Company, but also provide a strategic advantage for the Company in respect of its future growth, as it allows the Subscriber to provide advice to the Company if required.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Subscribers (and the ultimate beneficial owners of the Subscribers, where applicable) are third parties independent of the Company and its connected persons.

The Board is of the view that when considering the interests of the Shareholders, it is important to take into account the Company's own financial position, potential threats to the Company as well as the future development potentials. Since the outbreak of the Coronavirus Disease 2019 pandemic (the "**COVID-19 pandemic**"), the Company has faced unprecedented challenges. As a result, during the year ended 31 December 2020 and the six months ended 30 June 2021, the Group recorded losses of RMB32.3 million and RMB 31.4 million, respectively. The cash and cash equivalents held by the Group has decreased from RMB278.4 million as at 30 June 2019 to RMB199.3 million as at 30 June 2021, representing a decrease of 28.4%. Such decrease was mainly due to decrease in revenue of the Group as a result of the outbreak of the COVID-19 pandemic which caused serious damages to the PRC's economy and disrupted the business operations of the Group. Hence, the Board has been highly concerned about the uncertain business environment and considered necessary to take precautionary measures to tackle any unexpected financial obstacles.

The net proceeds from the Subscription amount to approximately HK\$11,600,000, of which approximately HK\$3,000,000 will be used for staff expenses, approximately HK\$2,400,000 will be used for professional fees and other miscellaneous expenses, and approximately HK\$6,200,000 will be used for purchase/ deposit for purchase of goods. The net proceeds from the Subscription are expected to be fully utilized by the end of March 2022.

Before resolving to the Subscription, the Company also considered alternative means of fundraising, including other forms of equity financing (such as a rights issue or an open offer) and debt financing (such as bank and other borrowings). However, other means of equity financing, such as a rights issue, would (i) incur additional costs, including but not limited to, underwriting commission and documentation and other professional fees; and (ii) take a relatively longer time when compared to the Subscription. In relation to debt financing, further borrowings would create additional interest burden for the Group and the due diligence and negotiation process with the relevant banks may be lengthy, and debt financing would also increase the debt-to-equity ratio of the Group. Therefore, in light of the continuous outbreak of the COVID-19 pandemic, the Board considers that the obtaining of additional funding through the Subscription is appropriate to offset part of the losses incurred, maintain the liquidity and the financial stability of the Group.

In addition, based on the Subscription Price of HK\$1.50 per Subscription Share and the unaudited consolidated net asset value (the "**NAV**") of approximately RMB 4.16 per Share (or approximately HK\$5.08 per Share) as at 30 June 2021, the Subscription Price represents a discount of approximately 70.5% to the NAV of the Company as at 30 June 2021. However, the Board noted that such extent of discount is not uncommon among listed issuers in Hong Kong which have conducted placements or subscriptions of shares as listed issuers are not always able to issue shares at a price approximates to their NAVs since the prevailing market prices of shares of listed entities can be affected by various factors, including the industry of which the listed issuers engage in, past performances, future prospect, demand and supply of the shares of the listed issuers, and these factors are to a certain extent beyond the control of the Company.

In fact, amongst the industry peers that engage in the sales of packaged food products, most of the prevailing market price of the shares of such listed issuers reflect a discount to their respective NAVs.

Further, due to the prevailing market environment and the declining operating results of the Company, it has been difficult for the Board to locate other investors who are willing to subscribe the Shares without significant discounts to the NAVs.

Rather, the Board believes that it is more appropriate to determine the Subscription Price with reference to the prevailing market price of the Shares, which is considered as a better indication of the market's perception with respect to the value of the Shares at a particular point of time. In this connection, the Board also noted that the average prevailing market price of the Shares during the 12 months immediately preceding the date of this letter was approximately HK\$1.355.

Therefore, the Board is of the view that the basis for determining the Subscription Price was fair and reasonable.

By the Order of the Board
China Shenghai Group Limited
Li Dongfan
Joint-Chairman and Executive Director

Hong Kong, 18 November 2021

As at the date of this announcement, the executive directors of the Company are Mr. Li Dongfan, Mr. Liu Rongru and Ms. Chen Xiaoling and the independent non-executive directors of the Company are Mr. Liu Dajin, Mr. Liu Junting and Mr. He Jian.