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

*(formerly known as
China Shenghai Food Holdings Company Limited
中國升海食品控股有限公司)*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1676)

COMPLETION ANNOUNCEMENT

Reference is made to the announcement of China Shenghai Group Limited (the “**Company**”) dated 28 March 2022 in relation to the subscription of Subscription Shares by Subscribers under General Mandate (the “**Announcement**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as 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 14 April 2022 in accordance with the terms and conditions of the Subscription Agreement. An aggregate of 12,000,000 Subscription Shares, representing (a) approximately 11.1% of the existing issued share capital of the Company immediately prior to the completion of the Subscription; (b) approximately 10.0% 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, the Subscriber has become a substantial shareholder of the Company immediately upon the completion of the Subscription.

EFFECTS OF SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is 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 (<i>Note 1</i>)	52,500,000	48.61	52,500,000	43.75
Lau Shek Yau John	8,000,000	7.41	8,000,000	6.67
The Subscriber	—	—	12,000,000	10.00
Public Shareholders	47,500,000	43.98	47,500,000	39.58
Total	<u>108,000,000</u>	<u>100.00</u>	<u>120,000,000</u>	<u>100.00</u>

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 AND BENEFITS OF THE SUBSCRIPTIONS

As stated in the Announcement, since the start of the outbreak of the Coronavirus Disease 2019 pandemic (the “**COVID-19 pandemic**”), the Company has faced unprecedented challenges. 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 details are specified as follows:

(I) Maintain liquidity and financial stability of the Company

The Board is of the view that when considering the interests of the existing shareholders, it is important to take into account the Company’s own financial position, potential threats to the Company as well as any potential for future developments. The cash and cash equivalents held by the Company has decreased from approximately RMB278.4 million as at 30 June 2019 to approximately RMB199.3 million as at 30 June 2021, representing a decrease of approximately 28.4%. The cash and cash equivalents further decreased to approximately RMB176 million (unaudited) as at 31 December 2021, representing another decrease of approximately 12%. Therefore, the Board believes 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 Company. The Company will continue to implement measures and strategies in order to improve its profitability going forward.

(II) Maintain cash reserves for repayment of debts and emergency support

Based on the historical operating cash flows of the Group, the Group has net operating cash outflow of approximately RMB32.7 million during the year ended 31 December 2020 and net operating cash outflow of approximately RMB16.4 million during the six months ended 30 June 2021. Such operating cash outflows represent the losses incurred during such relevant periods adjusted for the changes in working capital, which included increase or decrease in receivables, inventories and payables. Further, taking into account the cash outflows for the Group's lease liabilities (rental expenses) and interest expenses, the Group expects that the monthly net cash outflows amounted to approximately RMB3 million to RMB5 million for its food business during the year ending 31 December 2022, assuming the overall operating environment remain the same as in 2020 and 2021 as a conservative estimate. The Company is of the view that considering the recent Omicron outbreak in certain major cities in the PRC, the operating environment in 2022 could be even worse than 2021.

Considering the abovementioned assumption, the Group expects that the total amount of cash to be utilised from January 2022 to December 2022 for its food business will be approximately RMB51.0 million, representing approximately 29% of the cash retained as at 31 December 2021. In light of the aforementioned factors, the Company expects to retain approximately RMB100 million cash reserves, of which approximately RMB30 million is retained as a reserve for repayment of debts of the Company and for emergency support in case of further deterioration in relation to the operating environment of the Company's food business, particularly in view of the continuous outbreak of the COVID-19 pandemic.

(III) Development of other businesses and future possible merger acquisitions

The remaining approximately RMB70 million will be reserved for the development of the Group's other businesses as well as for future possible mergers acquisition, which include but not limited to the Joint Venture Company as announced by the Company on 16 March 2022 ("**JV Company**"), new business to be established by the Group as well as the possible acquisition of properties and online business as announced by the Company in March 2021 and October 2021 respectively. Such acquisition reserve provides support to the Company for the future development of its business so as to turn around the Company's loss-making situation.

In view of the above, the Directors consider that the terms of the Subscription Agreement are in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The Company intends to use the net proceeds arising out of the Subscription for the purposes and in the amounts set out below:

- i) approximately RMB5.36 million of the proceeds is intended to be applied towards the Group's food business, which includes (i) the expense for formulation and execution of new marketing strategy of approximately RMB1.76 million (ii) advertising and promotion expenses of approximately of RMB3 million and (iii) staff expenses of approximately RMB0.6 million;
- ii) approximately RMB2.01 million of the proceeds is intended to be applied towards the JV Company, which includes staff expenses of approximately RMB0.51 million and working capital of approximately RMB1.5 million;
- iii) approximately RMB4.409 million is intended to be applied for the Group's headquarters, which includes professional fees of approximately RMB2.16 million, staff expenses of approximately RMB1.48 million and office expenses of approximately RMB0.77 million; and
- iv) the remaining balance is intended to be applied for the new fruit distribution business that the Group plans to commence in 2022 Q2 ("**New Fruit Distribution Business**") as its working capital. For the New Fruit Distribution Business, the Group will be principally engaged in the provision of supply chain management services and retail and internet sales of edible agricultural products and pre-packaged food. It sources fresh fruits, frozen products and other agricultural and sideline products from overseas and domestic suppliers, package and distributes to customers such as Meituan Youxuan, Duoduo Maicai, and major supermarkets in China.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

In relation to the net proceeds raised from the subscription of new shares mentioned in the announcement of the Company dated 18 November 2021 (the "**November Announcement**"), the Company would like to supplement that such net proceeds have been fully used as intended as disclosed in the November Announcement. Such proceeds amounted to approximately HK\$11.6 million, of which approximately HK\$3 million has been used for staff expenses, approximately HK\$2.4 million has been used for professional fees and other miscellaneous expenses, and approximately HK\$6.2 million has been used for purchase/deposit for purchase of goods. Such proceeds have been applied to the Group's dried seafood product and seafood snack business, the fast moving consumer goods and other business and the Group's headquarters up to the date of the Announcement.

CLARIFICATION OF INFORMATION ON THE ANNOUNCEMENT

The Company would like to clarify that there was one inadvertent typographical error in the Summary section of the Announcement where “No Shares have been allotted and issued pursuant to the General Mandate” should have been stated as “8,000,000 Shares have been allotted and issued pursuant to the General Mandate”.

Save as disclosed in this announcement, all information set out in the Announcement remain unchanged.

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

Xiamen, the PRC, 14 April 2022

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.