



世紀陽光

世紀陽光集團控股有限公司

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

Executive Directors:

Mr. Chi Wen Fu
Mr. Shum Sai Chit
Mr. Chi Jing Chao

Non-executive Director:

Mr. Guo Mengyong

Independent non-executive Directors:

Mr. Cheung Sound Poon
Mr. Sheng Hong
Mr. Lau Chi Kit

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal Place of Business
in Hong Kong:*

Suite 1104, 11th Floor
Tower 6, The Gateway
9 Canton Road, Tsim Sha Tsui
Kowloon, Hong Kong

26 May 2020

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO
SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER
SPECIFIC MANDATE;
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver.

The purpose of this circular is to provide you with, among other things, (i) further details of the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver; (iv) a property valuation report of the Group; (v) a notice convening the EGM; and (vi) other information as required under the Listing Rules and the Takeovers Code.

THE SUBSCRIPTION AGREEMENT

On 18 April 2020, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which, the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK\$300 million.

The principal terms of the Subscription Agreement are summarised below.

Date: 18 April 2020

Parties: (i) China Century Sunshine Group Investment Company Limited (as Subscriber); and
(ii) the Company (as issuer).

The Subscriber is wholly-owned by Mr. Chi, a controlling Shareholder, the chairman of the Board and an executive Director.

Subscription

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK\$300 million, which may be converted into 1,600,000,000 Conversion Shares based on the initial Conversion Price of HK\$0.1875 per Conversion Share upon full conversion, for a cash consideration of HK\$300 million.

As at the Latest Practicable Date, the Company had 4,581,116,843 Shares in issue. The Conversion Shares represent approximately 34.93% of the existing total number of Shares in issue, and approximately 25.89% of the total number of Shares in issue as increased by the allotment and issue of the Conversion Shares immediately after full conversion of the Convertible Bonds at the initial Conversion Price (assuming there is no other change to the issued share capital of the Company).

Conditions of the Subscription

Completion is conditional upon each of the following conditions being satisfied or, if applicable, waived:

1. the passing of resolutions by the Independent Shareholders in the EGM approving and/or ratifying (as the case may be), among other things: (i) the execution, consummation and completion of the Subscription Agreement (including but not limited to the issue of the Convertible Bonds); (ii) the Specific Mandate; and (iii) the Whitewash Waiver;
2. the Listing Committee having granted approval of the issue of the Convertible Bonds and listing of and permission to deal in the Conversion Shares and such approval and granting of permission not having been withdrawn or revoked;
3. the Executive having granted the Whitewash Waiver and such waiver not having been withdrawn or revoked;
4. the warranties given by the Company in the Subscription Agreement remaining true, correct and not misleading in all material respects at Completion;
5. the Company having performed in all materials respects all of the covenants and agreements required to be performed by it under the Subscription Agreement;
6. there being no Material Adverse Change subsisting at Completion;
7. the Company having obtained all consents from third parties (other than consents from any governmental or regulatory authorities) which are necessary to be obtained on the part of the Company for the execution and performance of the Subscription Agreement and any of the transactions contemplated under the Subscription Agreement;
8. no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the transactions contemplated under the Subscription Agreement, nor shall any action have been taken by any person seeking any of the foregoing, and no statute, rule, regulation or order shall have been enacted, enforced or deemed applicable to the transactions contemplated under the Subscription Agreement, which makes the consummation of which illegal at Completion; and
9. no statute, regulation or decision which would reasonably be expected to prohibit or restrict the execution, delivery or performance of the Subscription Agreement or the consummation of the transactions contemplated under the Subscription Agreement having been enacted or taken by any governmental or official authority whether in Hong Kong, the PRC, or the Cayman Islands at Completion.

The Subscriber may in its absolute discretion waive either in whole or in part in writing the conditions set out in paragraphs 4, 5, and 6 above, respectively. Save as aforementioned, none of the other conditions may be waived. As at the Latest Practicable Date, none of the above conditions have been fulfilled or waived.

For the condition set out in paragraph 7 above, the Board was not aware of any of such consents being required as at the Latest Practicable Date.

In the event that any of the above conditions have not been satisfied (or, if applicable, waived) by the Long Stop Date, the Subscription Agreement will lapse and the parties thereto will be released from all obligations thereunder subject to the terms of the Subscription Agreement, save for liabilities for any antecedent breaches of the Subscription Agreement.

Completion of the Subscription

Completion shall take place no later than the tenth Business Day after the satisfaction or waiver (where applicable) of the conditions or at such other date to be agreed between the Subscriber and the Company in writing but in any event no later than the Long Stop Date.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

A summary of the principal terms of the Convertible Bonds is set out below.

Issuer:	The Company
Principal amount:	HK\$300,000,000
Denomination:	HK\$30,000,000 each
Maturity date:	The second anniversary of the date of issue of the Convertible Bonds (i.e. date of Completion of the Subscription Agreement) (the “ Maturity Date ”)
Interest rate:	8% per annum on the outstanding amount payable monthly
Conversion Price:	The Conversion Price will initially be HK\$0.1875 per Conversion Share.
Adjustment events:	<p>The initial Conversion Price is subject to customary adjustment upon occurrence of, among other things, any of the following events:</p> <ul style="list-style-type: none">(i) consolidation, subdivision or reclassification of Shares;(ii) capitalisation of profits or reserves;

- (iii) capital distribution;
- (iv) rights issue of Shares or options over Shares at a price which is less than 95% of the then market price of the Shares;
- (v) issue of securities convertible into or exchangeable for or carry rights of subscription for Shares at an effective consideration per Share less than 95% of the then market price of the Shares;
- (vi) any modification of the rights of conversion or exchange or subscription attaching to the securities in (v) above resulting in an effective consideration per Share being less than 95% of the then market price of the Shares; and
- (vii) issue of Shares at less than 95% of the then market price of the Shares.

Details of the adjustment events under the terms and conditions of the Convertible Bonds are set out in Appendix IV to this circular.

Conversion Shares:

The Conversion Shares shall be allotted and issued by the Company, credited as fully paid, with effect from the date on which conversion rights are validly exercised by the holder(s) of the Convertible Bonds ("**Bondholder(s)**"), and the Bondholder shall be entitled to all dividends and other distributions on the record date which falls after the conversion date.

Conversion rights:

Subject to the terms and conditions of the Convertible Bonds, the Bondholder(s) shall have the right to convert all or part of the Convertible Bonds held by such Bondholder(s) into Conversion Shares credited as fully paid at any time during the Conversion Period (as defined below) disregarding fractions and rounded down to the nearest whole number of Conversion Shares, by dividing the aggregate principal amount of the Convertible Bonds to be converted, by the applicable Conversion Price in effect on the relevant date of conversion.

The conversion right under the Convertible Bonds shall only be exercisable provided that any such conversion (i) would not result in the Conversion Shares being issued at a price below their nominal value as at the applicable date of conversion; (ii) would not result in the public float of the Shares falling below the minimum public float requirements under the Listing Rules or as required by the Stock Exchange immediately after such conversion; and (iii) does not trigger any general offer obligation in respect of the Company under Rule 26 of the Takeovers Code and/or, where applicable, REMT pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code in the event statutory control (as defined in Note 8 to Rule 26.1 of the Takeovers Code) of the Company being acquired by the Bondholder or person(s) acting in concert with such Bondholder upon exercising of its conversion right under the Convertible Bonds, unless such Bondholder or person(s) acting in concert with such Bondholder complies with the general offer obligation(s) under Rule 26 of the Takeovers Code or applicable waiver(s) from general offer obligation(s) have been obtained by such Bondholder or person(s) acting in concert with such Bondholder pursuant to Rule 26 of the Takeovers Code.

Conversion period:

The period commencing from the first anniversary of the date of issue of the Convertible Bonds and ending on the Maturity Date (the “**Conversion Period**”).

Early redemption at the
option of the Company:

At any time during the period commencing on the first anniversary of the date of issue of the Convertible Bonds to the date immediately prior to the Maturity Date, the Company may redeem the whole or part of the outstanding Convertible Bonds at the redemption amount which shall equal to 100% of the principal amount of the outstanding Convertible Bonds to be redeemed together with interest accrued.

Early redemption at the
option of the Bondholder:

At any time during the period commencing on the first anniversary of the date of issue of the Convertible Bonds to the date immediately prior to the Maturity Date, the Bondholder shall have the right to request the Company, subject to the consent of the Company, to redeem the whole or part of the outstanding Convertible Bonds at the redemption amount which shall equal to 100% of the principal amount of the outstanding Convertible Bonds to be redeemed together with all interest accrued.

Redemption on maturity:	Unless previously redeemed or converted, the Company shall redeem the Convertible Bonds on the Maturity Date at the redemption amount which shall equal to 100% of the principal amount thereof outstanding, together with interest accrued thereon (and not yet paid) up to (but excluding) the Maturity Date.
Status:	The Convertible Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Company, and rank pari passu among themselves and at least pari passu in right of payment with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.
Transferability:	The Convertible Bonds may be transferred at any time, subject to compliance with all applicable regulatory requirements (if any).
Ranking of the Conversion Shares:	The Conversion Shares shall rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of such Conversion Shares.
Voting rights:	Bondholders will not be entitled to attend or vote at any general meetings of the Company by reason of being Bondholders.
Listing:	The Convertible Bonds are not and will not be listed on any stock exchange. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares falling to be issued upon conversion of the Convertible Bonds.

THE CONVERSION PRICE

The initial Conversion Price of HK\$0.1875 per Conversion Share represents:

- (i) a premium of approximately 28.42% over the closing price of HK\$0.146 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 18.67% over the closing price of HK\$0.158 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 18.82% over the average closing price of HK\$0.1578 per Share as quoted on the Stock Exchange for the 5 consecutive trading days of the Shares up to and including the Last Trading Day;

- (iv) a premium of approximately 18.52 % over the average closing price of HK\$0.1582 per Share as quoted on the Stock Exchange for the 10 consecutive trading days of the Shares up to and including the Last Trading Day;
- (v) a premium of approximately 11.94% over the average closing price of HK\$0.1675 per Share as quoted on the Stock Exchange for the 30 consecutive trading days of the Shares up to and including the Last Trading Day;
- (vi) a premium of approximately 0.21 % over the average closing price of HK\$0.1871 per Share as quoted on the Stock Exchange for the 60 consecutive trading days of the Shares up to and including the Last Trading Day; and
- (vii) a discount of approximately 77.57% to the audited net assets value per Share attributable to equity holders of the Company of approximately HK\$0.8358 based on the latest audited consolidated net asset value attributable to equity holders of the Company as at 31 December 2019 and the number of Shares in issue as at the Latest Practicable Date (“NAV per Share”).

The Conversion Price was determined after arm’s length negotiations between the Company and the Subscriber having regard to the prevailing market price of the Shares and the market conditions at the time of entry into the Subscription Agreement.

The Directors noted the Shares have been traded at a general downward trend during the period from January 2020 up to and including the Last Trading Day (the “**Period**”) due to the recent volatility and market downturn of the global economy, in particular Hong Kong and China, as well as concerns over the COVID-19 pandemic in the Hong Kong stock market since January 2020. The highest and lowest closing prices of the Shares were HK\$0.228 on 20 January 2020 and HK\$0.151 on 18 March 2020 and 19 March 2020 respectively during the Period and the Conversion Price represents a discount of approximately 17.76% and a premium of approximately 24.17% to/over the highest and lowest closing price of the Shares respectively during the Period. The Conversion Price represents a slight discount of approximately 2.90% to the average closing price of HK\$0.1931 per Share during the Period.

The Directors also noted that the Conversion Price represents a discount of approximately 77.57% to the NAV per Share. However, considering the Shares had been consistently traded at a substantial discount to the net assets value per Share for the past three financial years calculated based on the audited net asset value attributable to Shareholders for the years ended 31 December 2017, 2018 and 2019 and the weighted average number of Shares in issue in the respective years (ranging from a minimum discount of approximately 49.17% to a maximum discount of approximately 78.22%), both the Subscriber and the Company considered that the prevailing market price of the Shares would be a more appropriate reference, instead of the NAV per Share.

In view of the above, the Directors consider that the Conversion Price, which was set at a premium of approximately 19% over the prevailing market prices of the Shares at the time of entry into the Subscription Agreement (i.e. average closing prices of the Shares for the last 5 and 10 consecutive trading days of the Shares up to and including the Last Trading Day) and approximated the average closing price of the Shares during the Period, reflected the fair market value of the Shares traded on the Stock Exchange and was an appropriate benchmark to reflect the prevailing market conditions and recent market sentiment.

SPECIFIC MANDATE TO ISSUE THE CONVERSION SHARES

The Conversion Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM.

INTENDED USE OF PROCEEDS FROM THE SUBSCRIPTION

Upon Completion, the gross proceeds and the net proceeds from the Subscription will be HK\$300 million and approximately HK\$292 million, respectively.

Based on the consolidated management accounts of the Group (excluding REMT Group) for the year ended 31 December 2019 and as disclosed in the annual report of the Company (the “**2019 Annual Report**”) and REMT for the year ended 31 December 2019, as at 31 December 2019, (i) the cash and bank balances of the Group (excluding REMT Group) were approximately HK\$561 million, the majority of which were denominated in RMB and deposited in the PRC to meet its working capital requirement in the PRC; (ii) the aggregate amount of total borrowings, including bank borrowings, term notes, exchangeable bonds and other third-party borrowings of the Group (excluding REMT Group) were approximately HK\$1,693 million, of which approximately HK\$794 million were unsecured offshore borrowings subject to repayment or refinancing during the period between June 2020 and December 2020 and the weighted average interest rates of these unsecured offshore borrowings are approximately 7.6% per annum; and (iii) the Group (excluding REMT Group) had outstanding capital commitments of approximately HK\$120 million for the ongoing construction projects, including the construction of ancillary facilities for Phase I of the Group’s production base in Jiangxi, the PRC and the upgrade work on a production line of the Group’s Jiangsu factory to increase the capacity from 150,000 tonnes per annum to 200,000 tonnes per annum for the Group’s fertiliser business in the PRC due before December 2020 (the “**Capital Expenditures**”).

It is expected that the net proceeds from the Subscription of (i) approximately HK\$230 million (representing approximately 78.77% of the net proceeds) will be utilised for partial refinancing of the Group’s unsecured offshore borrowings (including accrued interest) from independent third parties to a lower interest rate (i.e. from approximately 9.1% per annum to 8% per annum). As a result, the weighted average interest rate of the Group’s unsecured offshore borrowings would be reduced from approximately 7.6% per annum to approximately 7.3% per annum after the issue of the Convertible Bonds and the repayment of the relevant borrowings and therefore is expected to put the Company in a better position when negotiating terms of financing with potential investors and financial institutions; (ii) approximately HK\$32 million (representing approximately 10.96% of the net proceeds) will be applied for the settlement of the Capital Expenditures; and (iii) approximately HK\$30 million (representing approximately 10.27% of the net proceeds) will be utilised for the general working capital for the payment of loan interests of the unsecured offshore borrowings as well as salary, office rental and other administrative expenses of the Group’s operations in Hong Kong in the next twelve months upon Completion.

As mentioned in the section headed “Reasons for and benefits of the Subscription” below, the financing opportunities of the Group have been adversely affected by recent market conditions and the ongoing COVID-19 pandemic and the Subscription will bolster the Group’s liquidity to address the near-term debt maturities with better financing terms and therefore is expected to put the Company

in a better position when negotiating terms for other financing needs of the Group. In respect of the remaining Capital Expenditures due before December 2020, the Company is reviewing the progress of its capacity expansion plan and may adjust the capital expenditures level in light of the economic uncertainty due to the COVID-19 pandemic.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Group (excluding REMT Group) is principally engaged in fertiliser business and metallurgical flux business. The Company has been developing, producing and selling ecological fertilisers for over a decade, and is a reputable player with strong brand influence in China's compound and organic fertiliser market. As disclosed in the annual reports of the Company for the four years ended 31 December 2019, the Group's revenue from fertiliser business reported a compound annual growth rate of approximately 15.8% in the past five years. In addition, the Company owns quality serpentine reserves which is not only a key raw material to produce fertilisers, but also an indispensable source of auxiliary material for iron and steel smelting. The Company sells a manageable amount of serpentine to major domestic steel enterprises for continuous and stable income (i.e. metallurgical flux business).

China has put in place a policy environment which is conducive for the development of green agriculture to encourage transformation of its agri-food systems towards a more sustainable development path. As disclosed in the 2019 Annual Report, in October 2019, the National Development and Reform Commission of the PRC revised and issued the "Catalogue for the Guidance of Industrial Structure Adjustment (2019 Version)" (《產業結構調整指導目錄(2019年本)》), in which the "development and application of organic fertiliser industrialisation technology" were included in the class of agriculture product to be promoted. In addition, the Ministry of Agriculture of the PRC increased the number of demonstration counties that are qualified for government subsidies of RMB10 million per county from 100 to 175 in 2019 to encourage farmers to use organic fertiliser. It is also expected that the proportion of green ecological fertiliser application to total fertiliser application will increase from the current 10% to 30% in the future, providing a broad market space for the sustainable development of the Group's green ecological fertiliser business. The Company is of the view that its continuing investments in the green ecological fertiliser business will continue to grow, thereby bringing a positive and satisfactory economic return to the Company and its Shareholders as a whole.

As mentioned in the section headed "Intended Use of Proceeds from the Subscription" in the Letter from the Board in this circular, the Subscription will provide working capital for the Company to partially refinance its offshore borrowings to a better interest rate and strengthen the quality of the Company's financial resources and liquidity position to navigate in the current unstable market conditions so that the Company will be in a better financial position to capture more business opportunities associated with its principal business ahead. In addition, the Subscription reflects the confidence of and commitment to support the Group's business by Mr. Chi, the controlling Shareholder and the chairman of the Board. This will further give the market confidence as to the Company's prospects.

The Board has also considered other means of fundraising such as commercial debt financings (including bank borrowings), placing of new shares, rights issue or open offer. The management of the Company has continuously exhausted various alternatives during the past few months but the recent instability of the local and global financial markets negatively affects the financing opportunities of the Company. As in the past, debt financings, and in particular bank borrowings, continue to play a key role in supporting the ongoing operating working capital for the Group. However, the Board considers that it might be uncertain and time consuming to rely solely on bank borrowings given the current financial market conditions in Hong Kong and the PRC. The Company has approached several banks and financial institutions in the first quarter of 2020 (and some of them are in ongoing discussions) for the refinancing of the Group's unsecured offshore borrowings. In addition to lengthy due diligence exercises, the indicative interest rates quoted by the financial institutions for the commercial debt financings are in the mid-10% to upper 10% range, which are substantially higher than the weighted average interest rate of the Group's existing unsecured offshore borrowings due to the adverse market conditions. Furthermore, the Company is in ongoing discussions with financial institutions for the refinancing of the listed term notes of the Company with a face value of SGD101.75 million (equivalent to approximately HK\$559.63 million) and a coupon rate of 7.0% and the Company noted that the interest rates for US dollar denominated debts issued by companies in the Greater China Region with similar credit ratings in March 2020 and April 2020 ranged from 11.00% to 12.75% (Source: Bloomberg). As such, the Board considered that it will be difficult for the Company to obtain debt financings of such magnitude at the relevant time on acceptable terms.

Equity fundraisings may require a discount on issue price to the prevailing market price of the Shares given (i) the recent market volatility and poor market conditions; and (ii) the trading volume of the Shares has been thin in general (i.e. the monthly average daily trading volume of the Shares as a percentage of the total number of the Shares in issue during the 12-month period ended the Last Trading Day ranging from approximately 0.01% to 0.13% and as a percentage of the number of the Shares held by public Shareholders as at the Latest Practicable Date ranging from approximately 0.02% to 0.20%). In addition, if the Company is to raise funds by way of placing, placing agent commissions and additional costs will need to be incurred. Based on the Company's review of transactions involving placing of securities (i.e. shares and convertible bonds) of listed companies in Hong Kong for the past six months ended the Last Trading Day, the placing commission rates of these transactions ranged from 0.25% to 10% with an average of approximately 2.5%. As such, the Board did not pursue securities placing as it was considered to be less favourable to the Shareholders taking into account the additional costs and unfavourable pricing.

A rights issue or open offer would cause the Company to incur more transaction costs, including but not limited to additional costs for the preparation of the listing documents, and such corporate exercises would be relatively more time consuming (approximately an additional 30 days to complete the fundraising exercise) which may result in the Company being subject to the adverse effects of the current volatile market, thereby increasing uncertainty in being able to raise funds in time (which would depend on market conditions and acceptance level of the Shareholders) and may affect the overall business plan of the Group.

The Company and Mr. Chi, the chairman of the Board, executive Director and controlling Shareholder, have discussed the possibility of provision of shareholder's financing by Mr. Chi as an alternative means of financing to the Group subject to Mr. Chi being able to obtain personal financing. Mr. Chi informed the Company in mid-March 2020 that he managed to arrange personal financing so as to provide financing to the Group. After arms' length negotiation with Mr. Chi and careful consideration of the terms of the financing options currently available to the Company and the recent market conditions, the Company and Mr. Chi considered to proceed with shareholder's financing by way of subscription of unsecured convertible bonds to be issued by the Company. Given the Company's blackout period commenced on 18 January 2020, the parties worked towards finalising the terms of the Subscription and entering into the Subscription Agreement as soon as possible after the Company published its audited annual results for the year ended 31 December 2019.

In view of the above, the Directors considered that the Subscription to be a more preferable financing option for the Group.

The Directors noted that the shareholding interests of the public Shareholders would be diluted by approximately 16.48 percentage point (assuming the Convertible Bonds having been fully converted at the Initial Conversion Price and there being no other change to the issued share capital of the Company). Having considered that (i) the Subscription is an appropriate means of fundraising for the Company and the reasons for and benefits of the Subscription as set out above; and (ii) the terms of the Subscription Agreement are fair and reasonable, the Directors are of the view that the said level of dilution to the shareholding interests of the public Shareholders is acceptable.

The Board (including the members of the Independent Board Committee whose opinion is set forth in the Letter from the Independent Board Committee in this circular after considering the advice of the Independent Financial Adviser) considers the Subscription Agreement to be on normal commercial terms and the Subscription is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE COMPANY

The Company is an investment holding company incorporated in the Cayman Islands with limited liability. The Group is principally engaged in fertiliser business, magnesium product business, and metallurgical flux business.

INFORMATION ON THE SUBSCRIBER

The Subscriber is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Chi, its sole director.

EQUITY FUNDRAISING ACTIVITIES IN THE PAST TWELVE MONTHS FROM THE LATEST PRACTICABLE DATE

The Company had not carried out any equity fundraising activities in the past 12 months immediately preceding the Latest Practicable Date.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The table below depicts the shareholding structure of the Company as at the Latest Practicable Date and immediately after full conversion of the Convertible Bonds at the initial Conversion Price, the earliest of which will be the first anniversary of the date of issue of the Convertible Bonds (assuming there being no other change to the issued share capital of the Company):

	As at the Latest Practicable Date		Immediately after full conversion of the Convertible Bonds at the initial Conversion Price	
	No. of Shares	%	No. of Shares	%
Mr. Chi and the Subscriber (Note 1)	1,591,841,912	34.75%	3,191,841,912	51.64%
Mr. Chi's family (Note 2)	50,092,985	1.09%	50,092,985	0.81%
Directors				
Mr. Shum Sai Chit (Note 3)	14,666,305	0.32%	14,666,305	0.24%
Mr. Chi Jing Chao (Note 4)	1,633,998	0.04%	1,633,998	0.03%
Mr. Guo Mengyong (Note 5)	2,625,000	0.06%	2,625,000	0.04%
	18,925,303	0.42%	18,925,303	0.31%
Sub-total of the Subscriber and parties acting in concert with it	1,660,860,200	36.26%	3,260,860,200	52.76%
Other Directors				
Mr. Sheng Hong	1,775,000	0.04%	1,775,000	0.03%
Mr. Lau Chi Kit	2,000,000	0.04%	2,000,000	0.03%
	3,775,000	0.08%	3,775,000	0.06%
Public Shareholders	2,916,481,643	63.66%	2,916,481,643	47.18%
Total	4,581,116,843	100.0%	6,181,116,843	100.0%

Notes:

- The Subscriber is wholly-owned by Mr. Chi and it did not own or have control or direction over any Shares as at the Latest Practicable Date. Mr. Chi personally owned 249,970,548 Shares (representing approximately 5.46% of the total number of issued Shares as at the Latest Practicable Date) and he was deemed to be interested in the 1,341,871,364 Shares (representing approximately 29.29 % of the total number of issued Shares as at the Latest Practicable Date) held by Alpha Sino by virtue of Mr. Chi's holding of approximately 83.74% of the issued share capital of Alpha Sino. Alpha Sino is owned as to approximately 83.74% by Mr. Chi, as to approximately 6.26% by Mr. Shum Sai Chit and as to 10% by Bande Investment Company Limited, a company wholly-owned by Mr. Chi's siblings.

Mr. Chi and Alpha Sino, as chargors, charged 249,970,548 Shares and 792,591,364 Shares (together, the “**Charged Shares**”), respectively, (representing approximately 5.46% and 17.30 % of the issued share capital of the Company as at the Latest Practicable Date, respectively) to Mr. Lo, Kai Ming Charles (“**Mr. Lo**”) and Ms. Lee, Wai Yin Angela (“**Ms. Lee**”), as joint chargees (together, the “**Share Charges**”) on 18 April 2020. As at the Latest Practicable Date, Mr. Lo and Ms. Lee, being presumed class (9) concert parties with the Subscriber, did not own any Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company nor had they dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period. Please refer to pages III-10 and III-11 of Appendix III to this circular for further details on the Share Charges and the concert party relationship between the Subscriber and Mr. Lo and Ms. Lee.

2. The shareholdings of Mr. Chi's family include the shareholding interests in the Company held by Mr. Chi's siblings and daughter of 13,356,143 Shares (representing approximately 0.29% of the total number of issued Shares as at the Latest Practicable Date) and 36,736,842 Shares (representing approximately 0.80% of the total number of issued Shares as at the Latest Practicable Date) respectively.
3. Mr. Shum Sai Chit is a director of Alpha Sino and he is a party acting in concert with the Subscriber.
4. Mr. Chi Jing Chao is the nephew of Mr. Chi and is an executive Director. By virtue of being an executive Director, Mr. Chi Jing Chao is presumed to be a party acting in concert with the Subscriber pursuant to class (6) presumption under the definition of “acting in concert” under the Takeovers Code until completion of the Subscription.
5. Mr. Guo Mengyong is the brother-in-law of Mr. Chi and is a non-executive Director. By virtue of being a non-executive Director, Mr. Guo Mengyong is presumed to be a party acting in concert with the Subscriber pursuant to class (6) presumption under the definition of “acting in concert” under the Takeovers Code until completion of the Subscription.
6. As at the Latest Practicable Date, there were 314,856,204 outstanding Options, of which 74,389,145 Options were granted to the Directors as below:

Directors	Number of Options	
	Exercise price at HK\$0.3 per Share	Exercise price at HK\$0.78258 per Share
Mr. Chi	20,000,000	—
Mr. Shum Sai Chit	20,000,000	—
Mr. Chi Jing Chao	8,000,000	—
Mr. Guo Mengyong	5,000,000	—
Mr. Cheung Sound Poon	5,000,000	—
Mr. Sheng Hong	5,000,000	—
Mr. Lau Chi Kit	<u>5,000,000</u>	<u>6,389,145</u>
Total	68,000,000	6,389,145

7. Save as the aforesaid, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.
8. Save as disclosed above, none of the Directors had any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company as at the Latest Practicable Date.

As shown in the above table, the shareholding in the Company held by the public Shareholders will be diluted from approximately 63.66% to approximately 47.18% upon full conversion of the Convertible Bonds by the Subscriber at the initial Conversion Price and assuming there is no change to the issued share capital of the Company and the shareholding in the Company other than the issue of the Conversion Shares.

FUTURE INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP

The Subscriber intends to continue the existing business of the Group and there will be no change to the continued employment of the employees of the Group. The Subscriber has no intention to introduce any major changes to the existing operation and businesses of the Group including redeployment of any fixed assets of the Group other than in the ordinary course of business. As at the Latest Practicable Date, the Subscriber did not have any plan or intention to convert any part of the Convertible Bonds into Conversion Shares upon Completion.

The Subscriber shares the view of the Board as disclosed in the paragraph headed “Reasons for and benefits of the Subscription” above, in which it is mentioned that the Subscription will strengthen the quality of the Group’s financial resources, supplement its working capital, and ensure the Group’s continued and stable development in the future.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Subscriber is wholly-owned by Mr. Chi, a controlling Shareholder and an executive Director, and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction of the Company, and is subject to the announcement, reporting and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Subscriber (a company wholly-owned by Mr. Chi) and parties acting in concert with it were interested in 1,660,860,200 Shares, representing approximately 36.25% of the issued share capital of the Company. Upon full conversion of the Convertible Bonds at the initial Conversion Price, 1,600,000,000 Conversion Shares will be allotted and issued to the Subscriber and the interest of the Subscriber and parties acting in concert with it in the voting rights of the Company will increase to approximately 52.76% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (assuming there is no other change to the issued share capital of the Company).

As such, under Rule 26.1 of the Takeovers Code, the allotment and issue of the Conversion Shares to the Subscriber will give rise to an obligation on the part of the Subscriber/Mr. Chi to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive. Mr. Chi has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Conversion Shares to the Subscriber pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

The Executive may or may not grant the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by at least 75% and more than 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll in respect of the Whitewash Waiver and the Subscription (including the grant of the Specific Mandate) respectively at the EGM. If the Whitewash Waiver is not granted by the Executive, or if granted, is not approved by the Independent Shareholders, the Subscription will not proceed.

Shareholders and public investors should note that if the Subscription proceeds and immediately upon the allotment and issue of the Conversion Shares, the potential holding of voting rights of the Company held by the Subscriber and parties acting in concert with it may exceed 50% of the voting rights of the Company and that the Subscriber and parties acting in concert with it may increase their holding of voting rights of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer in respect of all other Shares.

As detailed in the section headed “Principal Terms of the Convertible Bonds” in the Letter from the Board of this circular, the conversion right under the Convertible Bonds shall only be exercisable provided that any such conversion, among others, does not trigger any general offer obligation in respect of the shares of REMT, where applicable, pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code in the event statutory control (as defined in Note 8 to Rule 26.1 of the Takeovers Code) of the Company being acquired by the Bondholder or person(s) acting in concert with such Bondholder upon exercising of its conversion right under the Convertible Bonds, unless such Bondholder or person(s) acting in concert with such Bondholder complies with the general offer obligation(s) under Rule 26 of the Takeovers Code. The Subscriber has confirmed to the Company that if, as a result of the issue of the relevant Conversion Shares, a general offer obligation will be triggered on the part of the Subscriber or person(s) acting in concert with it for the shares of REMT pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code in the event statutory control (as defined in Note 8 to Rule 26.1 of the Takeovers Code) of the Company being acquired by the Subscriber or person(s) acting in concert with it, the Subscriber and parties acting in concert with it will comply with the general offer obligation under Rule 26 of the Takeovers Code. In such scenario, the Company may potentially be a party acting in concert with the Subscriber for the purpose of the general offer in respect of the shares of REMT. As at the Latest Practicable Date, the Company (i) held 4,761,117,434 shares of REMT (representing approximately 72.31% of the issued share capital of REMT) and a convertible bond (the “**REMT Convertible Bond**”) convertible into 1,050,000,000 shares of REMT (representing approximately 15.95% of the issued share capital of REMT as at the Latest Practicable Date); and (ii) had granted to an independent third party (the “**Optionholder**”) a call option to acquire up to 200,000,000 shares of REMT (representing approximately 3.04% of the issued share capital of REMT as at the Latest Practicable Date) from the Company (the “**Call Option**”). For illustration purpose, assuming (i) only the REMT Convertible Bond is converted in full by the Company; and (ii) the REMT Convertible Bond and the Call Option are converted/exercised in full by the Company and the Optionholder respectively, the Company would be interested in approximately 76.12% and 73.50% of the issued share capital of REMT (as enlarged by the issue and allotment of 1,050,000,000 shares of REMT upon full conversion of the REMT Convertible Bond) respectively. As at the Latest Practicable Date, save for the 30,000,000, 20,000,000 and 3,000,000 share options of REMT held by Mr. Shum Sai Chit, Ms. Chi Bi Fen (elder sister of Mr. Chi) and Mr. Chi Jing Chao respectively, the Subscriber and party(ies) acting in concert with it did not hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of REMT (other than those held through the Company).

As at the Latest Practicable Date, the Company confirmed that the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver did not give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this circular, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver do not comply with other applicable rules and regulations.

Each of the Subscriber and the parties acting in concert with it has confirmed that, as at the Latest Practicable Date:

- (i) save as disclosed in the section headed “Effect on the Shareholding Structure of the Company” in the Letter from the Board in this circular, the Subscriber, the Subscriber’s director and parties acting in concert with the Subscriber did not hold, own, have control or direction over any other voting rights, rights over Shares, any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of the securities of the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (ii) save for the issuance contemplated under the Subscription Agreement, none of the Subscriber, the Subscriber’s director or any parties acting in concert with the Subscriber had acquired or entered into any agreement or arrangement to acquire any voting rights in the Company during the Relevant Period but subsequent to negotiations, discussions or the reaching of understandings or agreement with the Directors in relation to the Subscription Agreement, the grant of the Specific Mandate and the Whitewash Waiver;
- (iii) none of the Subscriber or parties acting in concert with it had received any irrevocable commitment to vote for or against the resolution(s) to be proposed at the EGM to approve the Subscription (including the grant of the Specific Mandate) and/or the Whitewash Waiver;
- (iv) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) that had been entered into in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company between the Subscriber and/or parties acting in concert with the Subscriber on the one hand and any person on the other hand and which might be material to the Subscription (including the grant of the Specific Mandate) and/or the Whitewash Waiver;
- (v) save for the Subscription Agreement, there was no agreement or arrangement to which the Subscriber or any parties acting in concert with it is a party which relates to circumstances in which it may or may not invoke or seek a pre-condition or a condition to the Subscription (including the grant of the Specific Mandate) and/or the Whitewash Waiver;
- (vi) none of the Subscriber or parties acting in concert with it had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

- (vii) apart from the consideration payable to the Company for the subscription of the Convertible Bonds pursuant to the Subscription Agreement, there was no other consideration, compensation or benefit in whatever form that has been or will be paid by the Subscriber or parties acting in concert with it to the Company in connection with the Subscription (including the grant of the Specific Mandate) and/or the Whitewash Waiver;
- (viii) apart from the Subscription Agreement, there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Subscriber or parties acting in concert with it on one hand and the Company on the other hand; and
- (ix) there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between any Shareholders; and (a) the Subscriber or parties acting in concert with it; or (b) the Company, its subsidiaries or associated companies.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of (i) the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver under the Takeovers Code; and (ii) the connected transaction regarding the Subscription (including the grant of the Specific Mandate) under the Listing Rules.

Pursuant to Rule 2.8 of the Takeovers Code, members of the independent board committee of the Company should comprise all non-executive Directors who have no direct or indirect interest in the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver. As Mr. Guo Mengyong, a non-executive Director and the brother-in-law of Mr. Chi, is presumed to be a party acting in concert with the Subscriber pursuant to the class (6) presumption under the definition of “acting in concert” under the Takeovers Code until completion of the Subscription, he is excluded as a member of the Independent Board Committee formed to make recommendations to the Independent Shareholders in respect of the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver under the Takeovers Code.

The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee.

The EGM will be held to approve, among other things, (i) the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) and (ii) the Whitewash Waiver.

The Subscriber and parties acting in concert with it and their respective associates and Shareholders who are involved in or interested in the Subscription (including the grant of the Specific Mandate) and/or the Whitewash Waiver will be required to abstain from voting in respect of the resolution(s) to approve the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver at the EGM.

As at the Latest Practicable Date, save for the Subscriber and parties acting in concert with it and their respective associates, no other Shareholder was involved in or interested in the Subscription (including the grant of the Specific Mandate) and/or the Whitewash Waiver and is required to abstain from voting in respect of the resolution(s) to approve the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver at the EGM.

EGM

A notice convening the EGM to be held at Suite 1104, 11/F, Tower 6, The Gateway, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong on Thursday, 18 June 2020 at 4:00 p.m. is set out on pages EGM-1 to EGM-4 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM, you are requested to complete and return the accompanying proxy form to Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish, and, in such event, the proxy form shall be deemed to be revoked.

The resolution(s) proposed to be approved at the EGM will be taken by poll and an announcement on the results of the EGM will be made by the Company thereafter. Under the Takeovers Code, the resolutions relating to the Whitewash Waiver and the Subscription (including the grant of the Specific Mandate) shall be approved by at least 75% and more than 50%, respectively, of the votes that are cast either in person or by proxy by the Independent Shareholders at the EGM.

RECOMMENDATIONS

Pursuant to the articles of association of the Company, as Mr. Chi had a material interest in the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver, he has abstained from voting on the relevant board resolutions of the Company. Save for Mr. Chi, none of the other Directors had a material interest in the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver which required them to abstain from voting on the relevant board resolutions of the Company.

The Board (including the members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser as to the fairness and reasonableness of the terms of the Subscription, the Specific Mandate and the Whitewash Waiver) considers that the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM.

You are advised to carefully read the Letter from the Independent Board Committee on pages 26 to 27 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 28 to 54 of this circular, considers that the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver are fair

and reasonable insofar as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver.

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Century Sunshine Group Holdings Limited

A handwritten signature in black ink, appearing to read 'Chi Wen Fu', written over a series of horizontal lines.

Chi Wen Fu
Chairman