
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **China Hongguang Holdings Limited** (the “Company”), you should at once hand this circular with the enclosed form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser(s) or transferee(s).

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities for the Company.



China Hongguang Holdings Limited

中國宏光控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8646)

**(1) CONNECTED TRANSACTION INVOLVING
PROPOSED ISSUE OF NEW SHARES TO
CONTROLLING SHAREHOLDER UNDER SPECIFIC MANDATE
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
流博資本有限公司

A notice convening the extraordinary general meeting (“EGM”) of the Company to be held at Jieyang Donghu Grand Hotel, No. 8, South of Wangjiang North Road, West of Donghu Road, Rongcheng District, Jieyang City, Guangdong Province, the PRC on Friday, 15 July 2022 at 3:00 p.m. is set out on pages 45 to 46 of this circular.

A form of proxy 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 enclosed form of proxy in accordance with the instructions printed thereon to the Company’s Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof (as the case may be) should you so desire.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page 1 of this circular for the measures to be implemented at the EGM by the Company against the epidemic to protect the attendees from the risk of infection of the Novel Coronavirus (“COVID-19”), including:

- **compulsory body temperature check**
- **compulsory wearing of surgical face mask**
- **no distribution of corporate gifts and no serving of refreshments**

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. The Company wishes to advise the Shareholders that you may appoint the Chairman of the EGM as your proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

This circular will remain on the “Latest Listed Company Information” page of the website of the Stock Exchange at www.hkexnews.hk for at least seven days from the day of its posting. This circular will also be published on the website of the Company at www.hongguang.hk.

27 June 2022

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given the companies listed on GEM are generally small and mid-sized companies, there is risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing COVID-19 epidemic and recent requirements for prevention and control of its spread, the Company will implement necessary preventive measures at the EGM to protect attending Shareholders, proxy and other attendees from the risk of infection, including:

- (i) Compulsory body temperature check will be conducted on every Shareholder, proxy and other attendees at the entrance of the EGM venue. Any person with a body temperature of over 37.2 degrees Celsius may be denied entry in to the EGM venue or be required to leave the EGM venue.
- (ii) Attendees are required to prepare his/her own surgical face masks and wear the same inside the EGM venue at all times, and to maintain a safe distance between seats.
- (iii) No corporate gifts will be distributed and no refreshments will be served.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all attendees' health and safety, the Company wishes to advise the Shareholders to appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

The proxy form, which can also be downloaded from the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.hongguang.hk), is enclosed to this circular. If you are not a registered Shareholder (i.e., if your Shares are held via banks, brokers, custodians or Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of directors of the Company
“Closing”	the completion of the Share Subscription
“Company”	China Hongguang Holdings Limited, a limited company incorporated in the Cayman Islands, and the issued Shares of which are listed on the GEM Board of the Stock Exchange (Stock Code: 8646)
“Conditions Precedent”	the conditions precedent set out under the paragraphs headed “Conditions Precedent under the Share Subscription Agreement”
“Director(s)”	member(s) of the Board of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Jieyang Donghu Grand Hotel, No. 8, South of Wangjiang North Road, West of Donghu Road, Rongcheng District, Jieyang City, Guangdong Province, the PRC on Friday, 15 July 2022 at 3:00 p.m., notice of which is set out on pages 45 to 46 of this circular
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries from time to time
“Independent Board Committee”	a committee comprised of Ms. Chen Xiuyan, Mr. Jia Xiaogang and Mr. Wu Yong, all of whom are independent non-executive Directors of the Company, formed to advise the Independent Shareholders in connection with the transactions contemplated under Share Subscription Agreement
“Independent Shareholders”	shareholders other than the connected person(s) who is/are interested in the relevant transactions

DEFINITIONS

“Last Trading Day”	16 May 2022, being the last trading day prior to the signing of the Share Subscription Agreement, which took place after trading hours
“Latest Practicable Date”	21 June 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Material Adverse Effect”	any material adverse effect on the business, assets and liabilities, condition (financial or otherwise), business operations, results of operations, or general affairs of the Company or the Group taken as a whole
“Ming Liang Global”	Ming Liang Global Limited, a company incorporated in the British Virgin Islands
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
“Rainbow Capital” and “Independent Financial Adviser”	Rainbow Capital (HK) Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Share Subscription Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented and modified from time to time
“Share(s)”	ordinary share of HK\$0.01 each in the share capital of the Company
“Share Subscription”	the subscription and issue of the Subscription Shares pursuant to the Share Subscription Agreement
“Share Subscription Agreement”	the share subscription agreement dated 17 May 2022 entered into between the Company as the issuer and Ming Liang Global as the subscriber in relation to the subscription of 99,000,000 Subscription Shares at the Subscription Price

DEFINITIONS

“Shareholders”	the holder(s) of the Share(s) of the Company from time to time
“Specific Mandate”	the specific mandate to be granted by the Independent Shareholders to the Directors at the EGM for the allotment and issue of the Subscription Shares to Ming Liang Global
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.4 per Subscription Share
“Subscription Shares”	an aggregate of 99,000,000 new Shares to be issued and allotted by the Company to Ming Liang Global pursuant to the terms and conditions of the Share Subscription Agreement
“%”	per cent

LETTER FROM THE BOARD



China Hongguang Holdings Limited

中國宏光控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8646)

Executive Directors:

Mr. WEI Jiakun (*Chief Executive Officer*)

Ms. LIN Weishan (*Chairwoman*)

Mr. CHEN Biming

Ms. LI Wanna

Registered Office:

Cricket Square, Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

Independent Non-Executive Directors:

Ms. CHEN Xiuyan

Mr. JIA Xiaogang

Mr. WU Yong

*Head Office and Principal Place of
Business in the PRC:*

Eastside of Middle of Rongchi Road
Xianqiao, Rongcheng, Jieyang
Guangdong, the PRC

*Principal Place of Business
in Hong Kong:*

Room 1202, 12th Floor
The Chinese Bank Building
61 Des Voeux Road Central
Central, Hong Kong

27 June 2022

To the Shareholders

Dear Sir/Madam,

**(1) CONNECTED TRANSACTION INVOLVING
PROPOSED ISSUE OF NEW SHARES TO
CONTROLLING SHAREHOLDER UNDER SPECIFIC MANDATE
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

The purpose of this circular is to: (i) provide you with details of the connected transaction involving proposed issue of new Shares to Controlling Shareholder under Specific Mandate; (ii) and give you notice of the EGM.

LETTER FROM THE BOARD

On 17 May 2022, the Company entered into the Share Subscription Agreement with Ming Liang Global, pursuant to which the Company has conditionally agreed to allot and issue, and Ming Liang Global has conditionally agreed to subscribe for, 99,000,000 Subscription Shares on the terms of the Share Subscription Agreement.

PRINCIPAL TERMS OF THE SHARE SUBSCRIPTION AGREEMENT

Date	:	17 May 2022
Parties	:	(i) The Company, as issuer; and (ii) Ming Liang Global, as subscriber
Subscription Shares	:	99,000,000 Subscription Shares
Subscription Price	:	HK\$0.4 per Subscription Share

Subscription Shares

Assuming there will be no change in the issued share capital of the Company from the date of the Share Subscription Agreement to the Closing Date save for the allotment and issue of the Subscription Shares:

- (a) the Subscription Shares represent approximately 33% of the existing issued share capital of the Company as at the Latest Practicable Date.
- (b) the Subscription Shares represent approximately 24.81% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Subscription Price

The Subscription Price of HK\$0.4 per Subscription Share represents:

- (a) a discount of approximately 13.04% to the closing price of HK\$0.46 per Share as quoted on the Stock Exchange on the date of the Share Subscription Agreement;
- (b) a discount of approximately 5.88% to the average closing price of approximately HK\$0.425 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the Last Trading Day;
- (c) a discount of approximately 11.70% to the average closing price of approximately HK\$0.453 per Share as quoted on the Stock Exchange for the last ten (10) trading days up to and including the Last Trading Day;

LETTER FROM THE BOARD

- (d) a discount of approximately 7.79% to the average closing price of approximately HK\$0.4338 per Share as quoted on the Stock Exchange for the last thirty (30) trading days up to and including the Last Trading Day;
- (e) a premium of approximately 4.14% to the average closing price of approximately HK\$0.3841 per Share as quoted on the Stock Exchange for the last sixty (60) trading days up to and including the Last Trading Day;
- (f) a premium of approximately 10.04% to the average closing price of approximately HK\$0.3635 per Share as quoted on the Stock Exchange for the last one hundred and twenty (120) trading days up to and including the Last Trading Day;
- (g) a premium of approximately 17.41% to the average closing price of approximately HK\$0.3407 per Share as quoted on the Stock Exchange for the last one hundred and eighty (180) trading days up to and including the Last Trading Day;
- (h) a premium of approximately 21.40% to the average closing price of approximately HK\$0.3295 per Share as quoted on the Stock Exchange for the last three hundred and sixty (360) trading days up to and including the Last Trading Day;
- (i) a discount of approximately 52.94% to the net asset value per Share as at 31 December 2021; and
- (j) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 3.26%, calculated based on the theoretical diluted price of approximately HK\$0.445 per Share to the theoretical benchmarked price of HK\$0.46 per Share (being the closing price on the Last Trading Day).

The net asset value of the Company per Share is approximately HK\$0.82 as at 31 December 2021 calculated based on the net assets value of the Company as at 31 December 2021 of approximately RMB200,577,000 and 300,000,000 Shares. The Directors are aware that the Shares had been traded at a significant discount to the consolidated net asset value per Share in the past 360 trading days. Among such period, the closing price of the Shares reached HK\$0.4 per Share or above in only 9 days. The closing price during the period from 17 May 2021 (12 months before the date of the Subscription Agreement) up to the date of the Subscription Agreement ranged from a maximum of HK\$0.54 per Share to a minimum of HK\$0.26 per Share, and the average closing price is approximately HK\$0.33 during such period, which are all far below the net asset value of the Company per Share as at 31 December 2021. Hence, considering the prevailing market price and trading liquidity of the Company's shares, which have been relatively low in the past 12 months, the Directors are of the view that the discount represented by the Subscription Price compared to the consolidated net asset value of the Company per Share would be fair and reasonable.

LETTER FROM THE BOARD

The Subscription Price was determined after arm's length negotiation between the Company and Ming Liang Global after taking into account the prevailing market price of the Shares and the trading volume of the Shares. From May 2021 up to the Last Trading Day, the average daily trading volume of the Shares represented approximately 0.02% to 0.33% of the total number of issued Shares, and approximately 0.07% to 1.00% of the total number of issued Shares held by public Shareholders as at the end of the relevant months, indicating generally thin trading liquidity during such period. In view of the low liquidity of the Shares as illustrated above, it is reasonable to set the Subscription Price at a discount to the prevailing market prices of the Shares as a discounted issue price will be more attractive to investor(s). The Directors (other than the independent non-executive Directors who will give their opinion after considering the advice from the Independent Financial Adviser), are of the view that the terms of the Share Subscription Agreement (including the Subscription Price) are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

The Subscription Shares have an aggregate nominal value of HK\$990,000. The net proceeds from the Share Subscription, after deduction of relevant costs and expenses, is estimated to be approximately HK\$39,250,000. The net Subscription Price per Subscription Share, after deduction of relevant costs and expenses, is estimated to be approximately HK\$0.3965 per Subscription Share.

The Subscription Price shall be payable by Ming Liang Global in cash upon Closing.

Ranking

The Subscription Shares, when issued and fully paid, will rank pari passu in all respects among themselves and with all other Shares in issue at the time of allotment and issue of the Subscription Shares.

Conditions Precedent under the Share Subscription Agreement

Completion of the Share Subscription Agreement is conditional upon the satisfaction (or, if applicable, waiver) of the following conditions precedent:

- (a) the passing of resolution(s) by the Independent Shareholders at the EGM approving the Share Subscription Agreement and the transactions contemplated thereunder;
- (b) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Subscription Shares and such approval not having been withdrawn or revoked;
- (c) the current listing of the Shares on the Stock Exchange not having been cancelled or withdrawn;

LETTER FROM THE BOARD

- (d) each of the warranties included in the Share Subscription Agreement given by the Company remaining true and accurate in all respects and not misleading in any respect as at Closing;
- (e) the Company not having materially breached or failed to perform in any material respect its other obligations or undertakings under the Share Subscription Agreement prior to Closing;
- (f) all consents, approvals, permits, authorizations or clearances (as the case may be) that the Company reasonably considers necessary pursuant to applicable laws, regulations or rules (including but not limited to the GEM Listing Rules) for its execution, implementation and completion of the Share Subscription Agreement having been obtained, and all such consents, approvals, permits, authorisations and clearances not having been revoked or withdrawn at any time before Closing;
- (g) all consents, approvals, permits, authorizations or clearances (as the case may be) that Ming Liang Global reasonably considers necessary pursuant to applicable laws, regulations or rules (including but not limited to the GEM Listing Rules) for its execution, implementation and completion of the Share Subscription Agreement having been obtained, and all such consents, approvals, permits, authorisations and clearances not having been revoked or withdrawn at any time before Closing;
- (h) from the date of the Share Subscription Agreement entered into between the Company and Ming Liang Global up to and at the Closing Date, there not having occurred any change (nor any development or event involving a prospective change), in the business, assets and liabilities, condition (financial or otherwise), business operations, results of operations or general affairs of the Company or the Group taken as a whole (whether or not arising in the ordinary course of business), which, in the reasonable opinion of Ming Liang Global, has or would have a Material Adverse Effect.

Among the above conditions, items (a), (b), (c), (f) and (g) are not waivable, while items (d), (e) and (h) may be waived by Ming Liang Global. The Conditions Precedent are not fulfilled yet as at the Latest Practicable Date.

Termination

If any Condition Precedent has not been satisfied or waived by 11:59 p.m. on 17 August 2022 (the “**Long Stop Date**”), the Share Subscription Agreement shall be automatically terminated with immediate effect.

LETTER FROM THE BOARD

Closing

Subject to the Conditions Precedent being satisfied or waived (if applicable) and the relevant terms under the Share Subscription Agreement, Closing shall occur on the date that is ten (10) Business Days after the date (not being later than the Long Stop Date) on which the last of the Conditions Precedent is satisfied or waived (if applicable) via exchange of documents and signatures, or at such other date, time and venue as the parties may agree in writing (the “Closing Date”).

Specific Mandate

In respect of the Share Subscription by Ming Liang Global, the Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM.

Listing Application

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

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY FOLLOWING THE COMPLETION OF THE SHARE SUBSCRIPTION

The table below sets out a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the Closing (assuming there being no other changes to the issued share capital of the Company between the Latest Practicable Date and the Closing Date save for the allotment and issue of the Subscription Shares):

	As at the Latest Practicable Date		After the Closing Date and the allotment and issue of Subscription Shares	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Ming Liang Global	150,750,000	50.25	249,750,000	62.59
Orient Success Ventures Limited	49,500,000	16.50	49,500,000	12.40
Public Shareholders	99,750,000	33.25	99,750,000	25.00
Total	300,000,000	100.00	399,000,000	100.00

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ISSUE OF SUBSCRIPTION SHARES

To support the business development of the Company, Ming Liang Global entered into the Share Subscription Agreement with the Company. The entering into of the Ming Liang Global Share Subscription Agreement will allow the Company to further improve its capital structure while providing financial support for the Company's potential acquisitions and to cope with the impact brought by COVID-19:

- (a) According to the Company's 2021 annual report, the Group is continuously seeking acquisition or investment opportunities to enhance the Group's risk tolerance and its value, and continue to create new growth drivers for the Group. There is a need for the Group to diversify its business in view of the impact of the PRC's real estate industry and the rising raw materials costs on the Group's existing business. For example, in January 2022, the Company signed a memorandum of understanding with Beijing Proverbs Asset Management Co., Ltd., entrusting it to locate suitable internet platform for cooperation for entering the social e-commerce sector. The issuance of new Shares can be used for potential acquisitions and investments to raise the required funds.
- (b) The Company's current revenue mainly comes from the sale of architectural glass products, so the impact of the epidemic is more obvious (in particular in 2020). Since March 2022, the epidemic has occurred in many cities in the mainland, which might have an impact on the Group's operations. The issuance of new Shares can help the Company raise funds to better face the impact of the epidemic, such as the slowdown in payment collection and the repayment of bank loans.

Taking into account the recent market conditions, the Directors consider that raising funds by way of allotment and issue of the Subscription Shares shall enable the Company to obtain funds at a lower cost, as compared to a rights issue or an open offer. The Board has considered other alternative fund-raising methods such as debt financing, rights issue or open offer. The Board has considered that debt financing may incur financial costs on the Group, while rights issue or open offer will involve the issue of listing documents with other application and administrative procedures which may require relatively longer time (which usually takes at least two to three months due to more stringent documentary and registration requirements) and incur additional administrative costs (which would include costs for engagement of underwriter(s), reporting accountants, financial advisers and/or brokerage agent(s)) as compared to the equity financing by way of allotment and issue of new Shares under the Specific Mandate. Besides, in order to encourage Shareholders to participate in the rights issue or open offer and provide incentives for the Shareholders to further invest in the Company, the Company will need to set the offer price or issue price at a deeper discount to the market price as compared to placement of shares. Yet, some Shareholders may still choose not to participate in the rights issue or open offer taking into account the current market condition. In such circumstances, the deep discount of the offer price or issue price will further deteriorate the value of the Shareholders' holdings in the Company due to the lower theoretical ex-rights price. Further, in view of the current market conditions, there is uncertainty in the amount of funds which could be raised under a rights issue

LETTER FROM THE BOARD

or an open offer. Recently, the market has been trading at low sentiment and there were uncertainties on the future macroeconomic condition in view of the COVID-19 pandemic, the continuous Russia-Ukraine conflict as well as the possible increase in interest rate by the Federal Reserve of the United States. The impact of such events on the willingness of the Shareholders and potential investors in making further investment in the Company is uncertain.

USE OF PROCEEDS

The aggregate gross proceeds of the Share Subscription will be approximately HK\$39,600,000. The aggregate net proceeds of the Share Subscription, after the deduction of related fees and expenses, will be approximately HK\$39,250,000.

The Company intends to apply the net proceeds from the Share Subscription for the following purposes:

- (a) as to 60% for the maintenance and operation of the existing business (including purchase of raw materials (proceeds for which are expected to be utilized by 31 December 2022), upgrading and purchase of production equipment to enhance efficiency and quality (proceeds for which are expected to be utilized by 31 March 2023), and repayment of borrowings (proceeds for which are expected to be utilized by 31 December 2022));
- (b) as to 30% for potential acquisitions and development of new business (proceeds for which are expected to be utilized by 31 March 2024). The Company contemplates the acquisition of (1) Building-Integrated Photovoltaics (BIPV) glass system business and has not identified any target or signed any agreement, arrangement or memorandum of understanding as at the Latest Practicable Date. BIPV are photovoltaic materials that are used to replace conventional building materials in parts of the building envelope such as the roof, skylights, or facades, which are increasingly being incorporated into the construction of new buildings as a principal or ancillary source of electrical power to help reduce electricity costs; (2) social e-commerce business and the Company has entered into a non-legally binding memorandum of understanding with 北京箴言資產管理有限公司 (Beijing Maxim Asset Management Company Limited) (for identification purpose only) to seek cooperation with outstanding internet platforms in the PRC. If the potential acquisition of new business does not materialize, the Company would consider acquiring new equipment, hiring qualified staff and developing the new business on its own, or may use such proceeds for the repayment of borrowings instead; and
- (c) as to 10% for the Group's general working capital (proceeds for which are expected to be utilized by 31 December 2022). Half of which will be used to cover general operational expenses, such as rental and utility expenses, manufacturing and sales expenses etc. for the maintenance of the existing business, and half of which will be used to settle professional fees such as audit fees, legal costs, fees of financial advisers and financial printing fees.

LETTER FROM THE BOARD

The Board (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the Independent Financial Adviser) is also of the view that the terms of the Share Subscription Agreement (including the Subscription Price) are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

EQUITY FUND-RAISING OF THE COMPANY DURING THE PAST TWELVE MONTHS

The Company had not conducted any equity fund-raising activity in the past twelve months immediately preceding the Latest Practicable Date.

INFORMATION OF THE COMPANY

The Group primarily engages in the manufacture and sale of architectural glass products, including energy-efficient safety glass products and smart glass product in Southern China, under its own brand “Hongguang”.

INFORMATION OF THE SUBSCRIBER

Ming Liang Global is a connected person of the Company. It is an investment holding company incorporated in the British Virgin Islands, the entire issued share capital of which is held by Wei Family Limited, which is in turn entirely held by IQ EQ (BVI) Limited, acting as the trustee of The Wei Family Trust. The Wei Family Trust is a discretionary trust established by Mr. Wei Jiakun (“**Mr. Wei**”, executive Director and chief executive officer of the Company), Ms. Lin Weishan (“**Ms. Lin**”, executive Director and chairwoman of the Company) and Ms. Liu Rong (“**Ms. Liu**”, mother of Mr. Wei Jiakun) as the settlors and the beneficiaries of The Wei Family Trust include Mr. Wei, Ms. Lin, Ms. Liu and certain family members of Mr. Wei.

IMPLICATIONS UNDER THE GEM LISTING RULES

As at the Latest Practicable Date, Ming Liang Global holds approximately 50.25% of the issued share capital of the Company and is therefore a connected person of the Company. The Share Subscription Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company and is subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

As the Subscription Shares to be issued and allotted to Ming Liang Global will be allotted and issued under the Specific Mandate to be obtained at the EGM, the Share Subscription by Ming Liang Global is subject to the Independent Shareholders’ approval.

LETTER FROM THE BOARD

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

The Independent Board Committee comprising Ms. Chen Xiuyan, Mr. Jia Xiaogang and Mr. Wu Yong, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Share Subscription by Ming Liang Global. An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

The EGM will be convened for the purpose of considering and, if thought fit, approving, among other things, the Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Ming Liang Global and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Ming Liang Global).

Ming Liang Global, which is entitled to exercise control over the voting rights in respect of its shares in the Company, will abstain from voting on the relevant ordinary resolution(s) at the EGM. Save as disclosed and to the best of the knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Ming Liang Global Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Ming Liang Global and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Ming Liang Global), and is required to abstain from voting on the resolutions to approve the aforesaid matters at the EGM.

To the best of the knowledge and belief of the Directors, save that Mr. Wei Jiakun and Ms. Lin Weishan are deemed to be interested in the Share Subscription Agreement and have abstained from voting on the board resolution in connection with the Share Subscription Agreement, none of the Directors has any interest in the resolution(s) of the Board to consider and approve the Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Ming Liang Global and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Ming Liang Global) or is otherwise required to abstain from voting on the relevant resolution(s) of the Board.

OTHER MATTERS

The Independent Board Committee comprising of all the independent non-executive Directors has been formed to advise the Independent Shareholders on the transactions contemplated under the Share Subscription Agreement, and Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions contemplated under the Share Subscription Agreement, and whether such transactions are in the interests of the Company and its shareholders as a whole.

LETTER FROM THE BOARD

EGM

A notice convening the EGM to be held at Jieyang Donghu Grand Hotel, No. 8, South of Wangjiang North Road, West of Donghu Road, Rongcheng District, Jieyang City, Guangdong Province, the PRC on Friday, 15 July 2022 at 3:00 p.m. is set out on pages 45 to 46 of this circular.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

Ming Liang Global, approximately 50.25% of the issued share capital of the Company, and its associates will be required to abstain from voting at the EGM with respect to the ordinary resolution in connection with the Share Subscription Agreement.

A form of proxy for use by Shareholders at EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the EGM or any adjournment thereof (as the case may be) should you so desire.

RECOMMENDATION

The Directors believe that the proposed resolutions relating to the Share Subscription Agreement are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the resolutions to be proposed at the EGM.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

By the Order of the Board
China Hongguang Holdings Limited
LIN Weishan
Chairman and Executive Director



China Hongguang Holdings Limited

中國宏光控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8646)

27 June 2022

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION INVOLVING
PROPOSED ISSUE OF NEW SHARES TO
CONTROLLING SHAREHOLDER UNDER SPECIFIC MANDATE**

Reference is made to the circular issued by the Company to the Shareholders dated 27 June 2022 (the “**Circular**”) of which this letter forms a part. Unless the context otherwise specified, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the terms of the Share Subscription Agreement. Rainbow Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out on pages 18 to 38 of the Circular and the additional information is set out in the appendices thereto.

Having considered the terms of the Share Subscription Agreement, and taking into account the independent advice of Rainbow Capital, in particular the principal factors, reasons and recommendations set out in its letter on pages 18 to 38 of the Circular, we consider that the Share Subscription Agreement are on normal commercial terms or better and fair and reasonable so far as the Independent Shareholders are concerned and the Share Subscription Agreement are entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favor of the resolutions to be proposed at the EGM to approve the Share Subscription Agreement.

Yours faithfully,

China Hongguang Holdings Limited

CHEN Xiuyan, JIA Xiaogang and WU Yong

the Independent Board Committee

LETTER FROM RAINBOW CAPITAL

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Subscription, which has been prepared for the purpose of inclusion in this circular.



RAINBOW CAPITAL (HK) LIMITED
滙博資本有限公司

27 June 2022

To the Independent Board Committee and the Independent Shareholders

China Hongguang Holdings Limited

Room 1202, 12th Floor
The Chinese Bank Building
61 Des Voeux Road Central
Central, Hong Kong

Dear Sir or Madam,

**CONNECTED TRANSACTION INVOLVING
PROPOSED ISSUE OF NEW SHARES TO
CONTROLLING SHAREHOLDER UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Subscription, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 27 June 2022 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 17 May 2022, the Company entered into the Share Subscription Agreement with Ming Liang Global, pursuant to which the Company has conditionally agreed to allot and issue, and Ming Liang Global has conditionally agreed to subscribe for, 99,000,000 Subscription Shares on the terms of the Share Subscription Agreement.

With reference to the Letter from the Board, the Share Subscription constitutes a connected transaction of the Company under the GEM Listing Rules, which is subject to the announcement, reporting and Independent Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

LETTER FROM RAINBOW CAPITAL

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Chen Xiuyan, Mr. Jia Xiaogang and Mr. Wu Yong, has been formed to advise the Independent Shareholders in respect of the Share Subscription by Ming Liang Global. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company, Ming Liang Global or any other parties that could reasonably be regarded as relevant to our independence. We have been (i) engaged to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the acquisition of Guangdong Longjian Engineering Co., Ltd., details of which are set out in the announcement of the Company dated 13 April 2021, which was subsequently terminated on 12 May 2022; and (ii) engaged to act as the independent sponsor to the Company in relation to the proposed transfer of listing from GEM to the Main Board of the Stock Exchange, details of which are set out in the announcement of the Company dated 16 May 2022. Other than that, there was no engagement between the Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Company or any other parties. Accordingly, we are qualified to give independent advice on the Share Subscription.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all the statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

LETTER FROM RAINBOW CAPITAL

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Share Subscription is fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Business and financial performance of the Group

The Group primarily engages in the manufacture and sale of architectural glass products, including energy-efficient safety glass products and smart glass product in Southern China, under its own brand “Hongguang”. Its energy efficient safety glass products include coated glass, insulating glass, laminated glass and tempered glass; and its smart glass products include dimming glass.

(i) Financial performance

Set out below is a summary of the consolidated statements of profit and loss for the year ended 31 December 2020 (“FY2020”) and 2021 (“FY2021”) as extracted from the annual report of the Company for the year ended 31 December 2021 (the “2021 Annual Report”):

	For the year ended	
	31 December	
	2021	2020
	RMB'000	RMB'000
	(audited)	(audited)
Revenue	203,074	156,904
Cost of sales	(145,570)	(113,899)
Gross profit	57,504	43,005
Other net income	3,137	1,397
Sales and marketing expenses	(159)	(327)
General and administrative expenses	(13,823)	(28,551)
Finance costs	(3,071)	(2,417)
Profit before taxation	43,588	13,107
Income tax expense	(4,588)	(2,811)
Profit for the year	39,000	10,296

LETTER FROM RAINBOW CAPITAL

Revenue of the Group increased significantly from approximately RMB156.9 million for FY2020 to approximately RMB203.1 million for FY2021 mainly due to the construction demand rebound in Mainland China in 2021. Since the spring of 2020, Mainland China and the rest of the world have been hit by the COVID-19 pandemic, which has now lasted for more than two years. When the pandemic started in 2020, construction works had been delayed and the development of the real estate market was affected, which triggered the slowdown of the development of the architectural glass industry. In 2021, under the orderly guidance of the PRC government's strong COVID-19 prevention and control policies, the economic development of Mainland China has not stalled and the construction demand resumed, thereby resulting in the significant increase in revenue of the Group for FY2021.

As a result of the increase in revenue, gross profit of the Group increased from approximately RMB43.0 million for FY2020 to approximately RMB57.5 million for FY2021, with gross profit margin slightly increasing from approximately 27.4% for FY2020 to approximately 28.3% for FY2021 as the Group managed to control the raw material costs despite the general increase in raw material costs across the market. During FY2021, general and administrative expenses of the Group decreased significantly from approximately RMB28.6 million for FY2020 to approximately RMB13.8 million for FY2021, primarily attributable to the expenses incurred for the listing of the Company on GEM for FY2020. Finance costs of the Group increased from approximately RMB2.4 million in FY2020 to approximately RMB3.1 million in FY2021, which was mainly due to the interests associated with other borrowings newly obtained in FY2021.

As a result of the foregoing, the profit of the Group increased from approximately RMB10.3 million for FY2020 to approximately RMB39.0 million for FY2021, representing a growth of approximately 278.8%.

LETTER FROM RAINBOW CAPITAL

(ii) Financial position

Set out below is an extract of the consolidated statements of financial position as at 31 December 2020 and 2021 as extracted from the 2021 Annual Report:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Non-current assets	56,560	53,927
Property, plant and equipment	51,054	48,406
Right-of-use assets	1,501	1,582
Deferred tax assets	2,605	3,939
Other receivables	1,400	–
Current assets	267,400	185,534
Inventories	116,324	79,251
Trade and other receivables	138,146	104,280
Cash and cash equivalents	12,930	2,003
Non-current liabilities	10,702	11,255
Bank loans	3,500	5,000
Other borrowings	1,906	–
Deferred revenue	5,296	6,255
Current liabilities	112,681	66,486
Trade and other payables	56,274	18,628
Bank loans	39,000	39,000
Other borrowings	8,788	–
Income tax payable	8,619	8,858
Net current assets	154,719	119,048
Net assets	200,577	161,720
Gearing ratio (note)	26.5%	27.2%

Note: Calculated based on total loans and borrowings divided by total equity of the Company as at the end of the year.

Current assets of the Group increased from approximately RMB185.5 million as at 31 December 2020 to approximately RMB267.4 million as at 31 December 2021, which was mainly due to the increase in inventories from approximately RMB79.3 million as at 31 December 2020 to approximately RMB116.3 million as at 31 December 2021, and the increase in trade and other receivables from approximately RMB104.3 million as at 31 December 2020 to approximately RMB138.1 million as at 31 December 2021, both of which were in line with the increase in revenue. Cash

LETTER FROM RAINBOW CAPITAL

position of the Group also improved from approximately RMB2.0 million as at 31 December 2020 to approximately RMB12.9 million as at 31 December 2021.

On the other hand, the Group recorded a significant increase in current liabilities from approximately RMB66.5 million as at 31 December 2020 to approximately RMB112.7 million as at 31 December 2021, which was mainly due to the increase in trade and other payables as well as the increase in other borrowings. During FY2021, the Group entered into certain agreements with certain third parties, pursuant to which the Group disposed of its machineries to these third parties for an aggregate consideration of approximately RMB19.3 million, and thereafter leased back such machineries for a period of two years with the options granted to the Group to repurchase these machineries at nominal considerations at the end of the lease periods. The transfer proceeds were classified as other borrowings and carried effective interest rates of 5% to 13% per annum. Other than the other borrowings, the Group also had outstanding bank loans of RMB42.5 million as at 31 December 2021 with interest rates ranging from 3.85% to 7.00% per annum, among which RMB20.0 million of the bank loans were secured by the Group's property, plant and equipment. Among the outstanding bank loans of RMB42.5 million as at 31 December 2021, RMB39.0 million were repayable within one year or on demand.

(iii) Overall comments

The financial performance of the Group has been satisfactory with increase in both revenue and profit for FY2021. However, the Group only had cash and cash equivalents of approximately RMB12.9 million as at 31 December 2021 while total bank loans and other borrowings amounted to RMB53.2 million, of which approximately RMB47.8 million were repayable within one year or on demand. As stated in the Annual Report 2021, in order to enhance the Group's risk tolerance and value, it is the Group's strategy to continuously seek acquisition or investment opportunities. In particular, there is a need for the Group to diversify its business as the Group's existing business is closely linked to the PRC's real estate industry and any impact on the PRC real estate market may affect the business the Group. We consider the relatively low level of cash may limit the Group's operation scale and business growth, and the Company may not be able to timely capture expansion or diversification opportunities when they arise.

2. Information on the Subscriber

With reference to the Letter from the Board, Ming Liang Global is a connected person of the Company. It is an investment holding company incorporated in the British Virgin Islands, the entire issued share capital of which is held by Wei Family Limited, which is in turn entirely held by IQ EQ (BVI) Limited, acting as the trustee of The Wei Family Trust. The Wei Family Trust is a discretionary trust established by Mr. Wei Jiakun ("**Mr. Wei**", executive Director and chief executive officer of the Company), Ms. Lin Weishan ("**Ms. Lin**", executive Director and chairwoman of the Company) and Ms. Liu Rong (mother of

LETTER FROM RAINBOW CAPITAL

Mr. Wei Jiakun) as the settlors and the beneficiaries of The Wei Family Trust include Mr. Wei, Ms. Lin, Ms. Liu and certain family members of Mr. Wei.

3. Principal terms of the Share Subscription

For details of the terms of the Share Subscription, please refer to the section headed “Proposed Share Subscription” in the Letter from the Board. Set out below are the principal terms of the Share Subscription Agreement:

Date	:	17 May 2022
Parties	:	(i) The Company, as issuer; and (ii) Ming Liang Global, as subscriber
Subscription Shares	:	99,000,000 Subscription Shares
Subscription Price	:	HK\$0.4 per Subscription Share

Assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date to the Closing Date save for the allotment and issue of the Subscription Shares, the Subscription Shares represent (a) 33% of the existing issued share capital of the Company as at the Latest Practicable Date; and (b) represent approximately 24.81% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

4. Reasons for and benefits of the Share Subscription

With reference to the Letter from the Board, Ming Liang Global entered into the Share Subscription Agreement with the Company to support the business development of the Company. The entering into of the Share Subscription Agreement will allow the Company to further improve its capital structure while providing financial support for the Company’s potential acquisitions and to cope with the impact brought by COVID-19:

- (a) According to the 2021 Annual Report, the Group is continuously seeking acquisition or investment opportunities to enhance the Group’s risk tolerance and its value, and continue to create new growth drivers for the Group. There is a need for the Group to diversify its business in view of the impact of the PRC’s real estate industry and the rising raw materials costs on the Group’s existing business. For example, in January 2022, the Company signed a memorandum of understanding with Beijing Proverbs Asset Management Co., Ltd., entrusting it to locate suitable internet platform for cooperation for entering the social e-commerce sector. The issuance of new Shares can raise the required funds as cash consideration for the potential acquisitions and investments.

LETTER FROM RAINBOW CAPITAL

- (b) The Company's current revenue mainly comes from the sale of architectural glass products, so the impact of the epidemic is more obvious (in particular in 2020). Since March 2022, the epidemic has occurred in many cities in Mainland China, which might have an impact on the Group's operations. The issuance of new Shares can help the Company raise funds to better face the impact of the epidemic, such as the slowdown in payment collection and the repayment of bank loans.

As illustrated in the section headed "Business and financial performance of the Group" above, the Group's business is closely related to the real estate and construction market of the PRC. While the financial performance of the Group was satisfactory due to the recovery in real estate market in FY2021, lately there were outbreaks of the pandemic in various areas of the PRC and the PRC government had imposed measures including mass-testing and lockdown in some areas to address the outbreak. It is expected that the financial performance of the Group may be affected if such outbreaks were in cities where the Group's major customers are located. As such, the Group has a need to diversify its business in order to enhance the Group's risk tolerance. Further, while the financial position of the Group was relatively healthy, the relatively low level of cash may limit the Group's operation scale and business growth.

According to HCR Co., Ltd. (北京慧辰資道資訊股份有限公司) ("HCR"), an independent market research firm, coated glass production volume in Mainland China is expected to increase at a compound annual growth rate ("CAGR") of about 7.8% from 293 million square metre ("m²") in 2018 to 427 million m² in 2023. The Group's coated glass, being the primary energy-efficient safety glass product of the Group, is expected to benefit from the continual growth of the demand of coated glass in Mainland China. Further, HCR estimated that there will be strong demand for dimming glass in new buildings. The production volume of dimming glass in Mainland China is expected to increase at a CAGR of 21.6% from 254,000 m² in 2018 to 675,000 m² in 2023 and there will be an upward trend of a similar scale in dimming glass sales volume. Dimming glass is the primary smart glass product of the Group, and it is expected that the business of the Group will be benefitted from the increasing market demand for smart glass products in Mainland China. According to the National Bureau of Statistics of China, the production volume of plain glass demonstrated an increasing trend amidst the pandemic macro environment. The national output of plain glass increased from approximately 926.7 million weight cases for the year ended 31 December 2019 to approximately 945.7 million weight cases for FY2020, and further increased to 1,016.6 million weight cases for FY2021. In light of the above, we consider that there are expansion opportunities for the business of the Group.

The Group only had cash and cash equivalents of approximately RMB12.9 million as at 31 December 2021, which was substantially less than the total amount of current bank loans and other borrowings repayable within one year or on demand of approximately RMB47.8 million. Given the above, we concur with the Directors that the Group has a need to raise additional fund to improve its cash position and allow the Company to timely capture expansion or diversification opportunities when they arise.

LETTER FROM RAINBOW CAPITAL

For details of the use of proceeds, please refer to the paragraph headed “Use of proceeds of the Share Subscription” below.

Suitable source of financing among other fund-raising alternatives

As stated in the Letter from the Board, the Board has considered other alternative fundraising methods such as debt financing, rights issue or open offer. Taking into account the recent market conditions, the Directors consider that raising funds by way of allotment and issue of the Subscription Shares shall enable the Company to obtain funds at a lower cost, as compared to a rights issue or an open offer.

In respect of rights issue or open offer, we concur with the Directors that rights issue or open offer may not be desirable for the following reasons:

- (a) additional time would reasonably be required. According to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Stock Exchange last updated in October 2020, (1) if general meeting is not required, an open offer will take at least 32 business days and a rights issue will take at least 28 business days from the date of announcement of the relevant proposal to the first date of dealings of the offer shares and fully-paid rights shares; and (2) if general meeting is required, both an open offer and a rights issue will take at least 40 business days from the date of announcement of the relevant proposal to the first date of dealings of the offer shares or fully-paid rights shares;
- (b) additional cost would be required for rights issue and open offer, including but not limited to underwriting commission (i.e. usually a percentage to the aggregated subscription price of underwritten shares) and other professional fees, including costs for engagement of reporting accountants, financial advisers and/or brokerage agent(s), as compared to the Share Subscription (e.g. additional cost for unaudited pro forma financial information on net tangible assets, indebtedness statement, comfort letter on working capital sufficiency of the Group to be prepared by reporting accountants or auditors of the Company); and
- (c) in view of the current market conditions where the market has been trading at low sentiment and there were uncertainties on the future macroeconomic condition due to the COVID-19 pandemic, the continuous Russia-Ukraine conflict as well as the possible increase in interest rate by the Federal Reserve of the United States, there is uncertainty in the amount of funds which could be raised under a rights issue or an open offer as Shareholders and potential investors may be unwilling to invest under such market condition. In particular, in order to encourage Shareholders to participate in the rights issue or open offer, the Company will need to set the offer price or issue price at a deeper discount to the market price as compared to a

LETTER FROM RAINBOW CAPITAL

share placement so as to provide incentives for the Shareholders to further invest in the Company. Nevertheless, some Shareholders may still elect not to participate in the rights issue or open offer given the current market condition. In this circumstances, the deep discount of the offer price or issue price will further deteriorate the value of the Shareholders' holdings in the Company due to the lower theoretical ex-rights price.

In respect of debt financing, it would incur additional financial costs on the Group and may be subject to lengthy due diligence and negotiations with lenders. As mentioned in the section headed "Business and financial performance of the Group" above, the Group had substantial amount of bank loans of RMB42.5 million and other borrowings of approximately RMB10.7 million as at 31 December 2021, and RMB20.0 million of the bank loans were secured by the Group's property, plant and equipment. Hence, we concur with the Directors that it may not be practicable to secure further financing from banks without incurring relatively high financing cost, which would result in additional interest burden to the Group.

Having taken into consideration the above factors, we concur with the Directors that the Share Subscription is an appropriate fund-raising method given the circumstance of the Group and is in the interest of the Company and the Shareholders as a whole.

Use of proceeds of the Share Subscription

The aggregate gross proceeds of the Share Subscription will be approximately HK\$39,600,000. The aggregate net proceeds of the Share Subscription, after the deduction of related fees and expenses, will be approximately HK\$39,250,000.

The Company intends to apply the net proceeds from the Share Subscription for the following purposes:

- (a) as to 60% for the maintenance and operation of the existing business (including purchase of raw materials (proceeds for which are expected to be utilised by 31 December 2022), upgrading and purchase of production equipment to enhance efficiency and quality (proceeds for which are expected to be utilised by 31 March 2023), and repayment of borrowings (proceeds for which are expected to be utilised by 31 December 2022));
- (b) as to 30% for potential acquisitions and development of new business (proceeds for which are expected to be utilised by 31 March 2024). The Company contemplates the acquisition of (1) Building-Integrated Photovoltaics (BIPV) glass system business and has not identified any target or signed any agreement, arrangement or memorandum of understanding as at the Latest Practicable Date. BIPV are photovoltaic materials that are used to replace conventional building materials in parts of the building envelope

LETTER FROM RAINBOW CAPITAL

such as the roof, skylights, or facades, which are increasingly being incorporated into the construction of new buildings as a principal or ancillary source of electrical power to help reduce electricity costs; and (2) social e-commerce business and the Company has entered into a non-legally binding memorandum of understanding with 北京箴言資產管理有限公司 (Beijing Maxim Asset Management Company Limited) (for identification purpose only) to seek cooperation with outstanding internet platforms in the PRC. If the potential acquisition of new business does not materialise, the Company would consider acquiring new equipment, hiring qualified staffs and developing the new business on its own, or may use such proceeds for the repayment of borrowings instead; and

- (c) as to 10% for the Group's general working capital (proceeds for which are expected to be utilised by 31 December 2022). Half of which will be used to cover the general operational expenses, such as rental and utility expenses, manufacturing and sales expenses etc. and for the maintenance of the existing business, and half of which will be used to settle professional fees such as audit fees, legal costs, fees of financial advisers and financial printing fees.

As mentioned in the section headed "Business and financial performance of the Group" above, while the financial performance of the Group was satisfactory in FY2021, the level of cash of the Group was relatively low. In light of the challenging macro environment under the COVID-19 pandemic, it is crucial for the Group to maintain sufficient level of cash to cater for any slowdown in payment collection caused by the pandemic from time to time. The low level of cash may also limit the Group's ability to expand its business and operation scale as the Company may not be able to timely capture expansion or diversification opportunities when they arise due to the shortage of cash.

Having considered (i) the reasons for and benefits of the Share Subscription as mentioned above; (ii) the Share Subscription is an appropriate fund raising method currently available to the Group; and (iii) the proposed use of proceeds is justifiable and in line with the reasons for the Share Subscription, we are of the view that the Share Subscription is a means of obtaining financing for the ongoing development of the Group's businesses and is therefore conducted in the ordinary and usual course of business of the Group and is in the interest of the Company and the Shareholders as a whole.

5. Assessment on the Subscription Price

The Subscription Price of HK\$0.4 per Subscription Share represents:

- (i) a discount of approximately 46.67% to the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

LETTER FROM RAINBOW CAPITAL

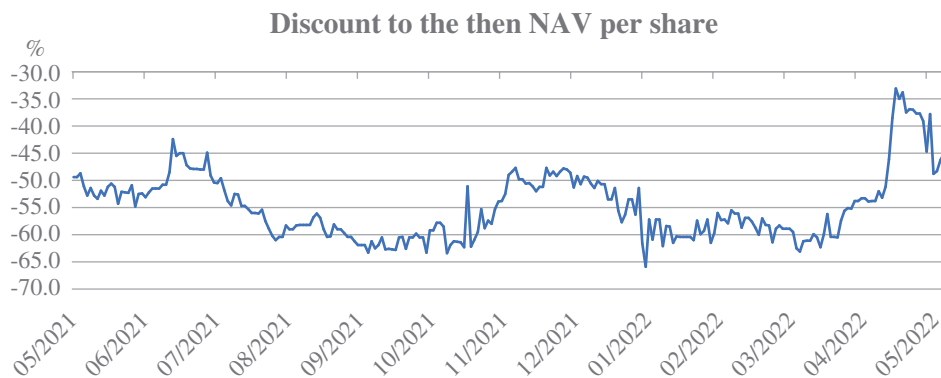
- (ii) a discount of approximately 13.04% to the closing price of HK\$0.46 per Share as quoted on the Stock Exchange on the date of the Share Subscription Agreement (the “**LTD Discount**”);
- (iii) a discount of approximately 5.88% to the average closing price of approximately HK\$0.425 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the Last Trading Day (the “**Five Days Discount**”);
- (iv) a discount of approximately 11.70% to the average closing price of approximately HK\$0.453 per Share as quoted on the Stock Exchange for the last ten (10) trading days up to and including the Last Trading Day (the “**10 Days Discount**”);
- (v) a discount of approximately 7.79% to the average closing price of approximately HK\$0.4338 per Share as quoted on the Stock Exchange for the last thirty (30) trading days up to and including the Last Trading Day (the “**30 Days Discount**”);
- (vi) a premium of approximately 4.14% over the average closing price of approximately HK\$0.3841 per Share as quoted on the Stock Exchange for the last sixty (60) trading days up to and including the Last Trading Day (the “**60 Days Premium**”);
- (vii) a premium of approximately 10.04% over the average closing price of approximately HK\$0.3635 per Share as quoted on the Stock Exchange for the last one hundred and twenty (120) trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 17.41% over the average closing price of approximately HK\$0.3407 per Share as quoted on the Stock Exchange for the last one hundred and eighty (180) trading days up to and including the Last Trading Day;
- (ix) a premium of approximately 21.40% over the average closing price of approximately HK\$0.3295 per Share as quoted on the Stock Exchange for the last three hundred and sixty (360) trading days up to and including the Last Trading Day;
- (x) a discount of approximately 51.16% to the audited net asset value (the “**NAV**”) per Share of approximately HK\$0.819 per Share based on (a) the audited net assets of approximately RMB200.6 million as at 31 December 2021; (b) 300,000,000 issued Shares as at the Latest Practicable Date; and (c) the exchange rate of RMB1: HK\$1.225 as at 31 December 2021 as extracted from Bloomberg (the “**NAV Discount**”); and

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- (xi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of a discount of approximately 3.26%, calculated based on the theoretical diluted price of approximately HK\$0.445 per Share to the theoretical benchmarked price of HK\$0.46 per Share (being the closing price on the Last Trading Day).

As disclosed in the Letter from the Board, the Subscription Price was determined after arm's length negotiation between the Company and Ming Liang Global after taking into account the prevailing market price of the Shares and the trading volume of the Shares.

As set out in the chart below, we noted that during the period from 1 May 2021 (being approximate one year period prior to the Last Trading Day) and up to the Last Trading Day (the "**Review Period**"), the Share price had at all times closed at a discount to the then NAV per Share, ranging from a discount of approximately 33.08% to a discount of approximately 65.86% with an average of a discount of approximately 54.72% (the "**Average Discount**"). The NAV Discount of approximately 51.16% is within the aforesaid range and is lower than the Average Discount.

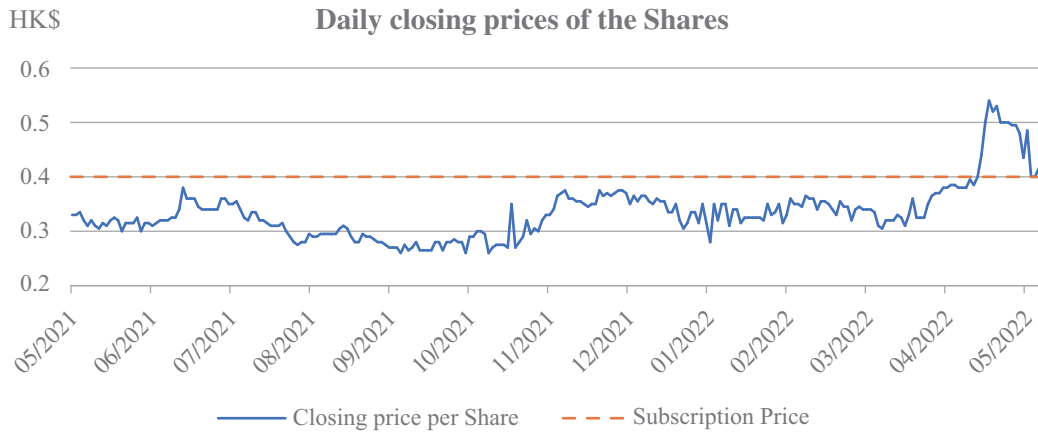


Source: Bloomberg

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(i) Share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices of the Shares during the Review Period. We consider the Review Period is adequate to reflect the prevailing market sentiment primarily and illustrate the general trend and level of movement of the daily closing prices of the Shares, which can reflect the correlation between the recent business performance of the Company and the latest market reaction in the Share price.



Source: The website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the average closing price of the Shares was approximately HK\$0.334 per Share (the “**Average Closing Price**”). The daily closing prices of the Shares ranged from HK\$0.26 per Share (the “**Lowest Closing Price**”) recorded on 3 September 2021, 28 September 2021 and 8 October 2021 to HK\$0.54 per Share (the “**Highest Closing Price**”) recorded on 22 April 2022 during the Review Period.

The Subscription Price of HK\$0.4 per Subscription Share represents (a) a premium of approximately 53.85% over the Lowest Closing Price of HK\$0.26 per Share; (b) a discount of approximately 25.93% to the Highest Closing Price of HK\$0.54 per Share; and (c) a premium of approximately 19.76% over the Average Closing Price of approximately HK\$0.334 per Share for the Review Period.

Since the beginning of the Review Period and up to early April in 2022, the daily closing price was relatively stable and fluctuated between HK\$0.26 per Share to HK\$0.38 per Share. The daily closing prices of the Shares were below the Subscription Price in 237 trading days out of 255 trading days (i.e. approximately 92.9% of total trading days) during the Review Period. On around 19 April 2022, there was a sudden surge in Share price and the Shares had been trading on above the Subscription Price thereafter. The Company was not aware of the reasons for the

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sudden surge in the price of the Shares. The Share price closed at HK\$0.75 at the Latest Practicable Date.

Given the Shares has been trading at a discount to the Subscription Price during approximately 92.9% of the Review Period as illustrated above, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Trading volume

Apart from historical daily closing prices of the Shares, we have also reviewed the average daily trading volume of the Shares for each month during the Review Period, details of which are set out below:

	Approximate average daily trading volume of the Shares <i>(No. of Shares)</i>	Number of trading days	Approximate percentage of average daily trading volume to total number of issued Shares <i>(Note 1)</i>	Approximate percentage of average daily trading volume to total number of issued Shares held by public Shareholders <i>(Note 2)</i>
2021				
May	126,000	20	0.04%	0.13%
June	347,143	21	0.12%	0.35%
July	199,143	21	0.07%	0.20%
August	138,273	22	0.05%	0.14%
September	129,286	21	0.04%	0.13%
October	437,667	18	0.15%	0.44%
November	518,455	22	0.17%	0.52%
December	68,182	22	0.02%	0.07%
2022				
January	258,571	21	0.09%	0.26%
February	176,824	17	0.06%	0.18%
March	206,609	23	0.07%	0.21%
April	765,833	18	0.26%	0.77%
1 May to the Last Trading Day	996,667	9	0.33%	1.00%

Source: The website of the Stock Exchange (www.hkex.com.hk)

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Notes:

1. Based on the total number of issued Shares of 300,000,000 Shares as at the Latest Practicable Date.
2. Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by Ming Liang Global and Orient Success Ventures Limited from the number of total issued Shares, being 99,750,000 Shares as at the Latest Practicable Date.

As shown in the table above, during the Review Period, the average daily trading volume of the Shares represented approximately 0.02% to 0.33% of the total number of issued Shares, and approximately 0.07% to 1.00% of the total number of issued Shares held by public Shareholders as at the end of the relevant months, indicating generally thin trading liquidity during the Review Period. The higher trading liquidity in April and May 2022 may be attributable to the surge in price of the Shares in April 2022 as mentioned above.

Given the low liquidity of the Shares as illustrated above, it is reasonable to set the Subscription Price at a discount to the prevailing market prices of the Shares as a discounted issue price will be more attractive to investor(s).

(iii) Recent subscription exercises

In order to further assess the fairness and reasonableness of the terms of the Share Subscription, we have further identified subscription of new shares (excluding issuance of A shares as the issue price of A shares is subject to the regulations under Non-public Issuance of A Shares based on the bidding results and pursuant to the Specific Rules for Implementation of the Non-public Issuance of Shares by Listed Companies (as amended in 2020)* (《上市公司非公开发售股票实施细则》(2020年修正)) under specific mandate for cash consideration as announced and completed by the companies listed on the Stock Exchange for the period from 1 December 2021 to the Last Trading Day. Based on the aforesaid criteria, we have identified an exhaustive list of 12 transactions (the “**Comparables**”). We consider that the aforesaid review period is adequate and appropriate to (a) capture the recent market practice in relation to subscription of shares under the prevailing market conditions, in particular the effect of the recent COVID-19 outbreak which has significantly affected the economic sentiment; and (b) provide a sufficient sample for comparison with the Share Subscription.

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The details of the Comparables are set out below:

Company name (Stock code)	Date of announcement	Premium/ (discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of the agreement (approximate %)	Premium/ (discount) of the subscription price over/to the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of the agreement (approximate %)	Premium/ (discount) of the subscription price over/to the average closing price per share for the last 30 consecutive trading days prior to/up to and including the date of the agreement (approximate %)	Premium/ (discount) of the subscription price over/to the average closing price per share for the last 60 consecutive trading days prior to/up to and including the date of the agreement (approximate %)
Persta Resources Inc. (3395) (Note 1)	6 May 2022	122.22	122.22	122.47	118.18
Jinxin Fertility Group Limited (1951)	13 April 2022	11.30	7.65	5.78	(14.71)
JD Logistics, Inc. (2618)	25 March 2022	(9.96)	(13.74)	(6.26)	(15.62)
Towngas Smart Energy Company Limited (1083)	18 March 2022	(14.39)	(19.85)	(24.00)	(37.42)
Beijing Enterprises Clean Energy Group Limited (1250)	14 March 2022	(7.69)	(8.75)	(6.71)	(3.14)
China Ruyi Holdings Limited (136)	25 January 2022	9.17	8.60	8.98	(4.46)
Zall Smart Commerce Group Limited (2098)	18 January 2022	13.64	12.11	9.17	5.02
Wealthking Investments Limited (1140)	31 December 2021	15.00	21.37	25.00	26.98
China South City Holdings Limited (1668)	31 December 2021	(17.39)	(14.93)	(3.31)	1.35
Hong Wei (Asia) Holdings Company Limited (8191)	16 December 2021	(11.00)	(15.90)	(21.34)	(55.46)
China Saite Group Company Limited (153)	10 December 2021	(3.80)	(2.70)	(3.80)	No information (Note 2)
Kirin Group Holdings Limited (8109)	8 December 2021	10.00	10.11	4.71	(7.32)
	Maximum	15.00	21.37	25.00	26.98
	Minimum	(17.39)	(19.85)	(24.00)	(55.46)
	Average	(0.47)	(1.46)	(1.07)	(8.55)
	Median	(3.80)	(2.70)	(3.31)	(7.33)
The Company	17 May 2022	(13.04)	(5.88)	(11.70)	4.14

Source: the website of the Stock Exchange (www.hkex.com.hk)

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Notes:

1. The information of Persta Resources Inc. (3395) was considered as an outlier due to its exceptionally high premiums. The inclusion of the information of Persta Resources Inc. would distort the results of the Comparables which aimed at illustrating the recent general market practice in relation to subscription of shares and was therefore excluded for comparison purpose.
2. Not available as trading in the shares of China Saite Group Company Limited has been suspended since 22 June 2020.

As illustrated in the table above, the subscription prices of the Comparables:

- (a) ranged from a discount of approximately 17.39% to a premium of approximately 15.00%, with an average of a discount of approximately 0.47% and a median of a premium of approximately 3.80%, to/over their respective closing prices on/prior to the date of agreement;
- (b) ranged from a discount of approximately 19.85% to a premium of approximately 21.37%, with an average of a discount of approximately 1.46% and a median of a premium of approximately 2.70%, to/over their respective average closing prices for the five (5) consecutive trading days prior to/up to and including the date of agreement;
- (c) ranged from a discount of approximately 24.00% to a premium of approximately 25.00%, with an average of a discount of approximately 1.07% and a median of a premium of approximately 3.31%, to/over their respective average closing prices for the ten (10) consecutive trading days prior to/up to and including the date of agreement;
- (d) ranged from a discount of approximately 58.71% to a premium of approximately 26.20%, with an average of a discount of approximately 8.55% and a median of a discount of approximately 5.07%, to/over their respective average closing prices for the 30 consecutive trading days prior to/up to and including the date of agreement; and
- (e) ranged from a discount of approximately 55.46% to a premium of approximately 26.98%, with an average of a discount of approximately 10.77% and a median of a discount of approximately 7.33%, to/over their respective average closing prices for the 60 consecutive trading days prior to/up to and including the date of agreement.

When comparing the Subscription Price to the Comparables as shown in the table above, it is noted that the LTD Discount, the Five Days Discount, the 10 Days Discount, the 30 Days Discount and 60 Days Premium of approximately 13.04%, 5.88%, 11.70%, 7.79% and 4.14% respectively, are within the range of those of the Comparables. Although the LTD Discount, the Five Days Discount and the 10 Days Discount were below the median and mean of those of the Comparables, such

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discounts were resulted from the sudden surge in Share price on around 19 April 2022. When the Share prices were reviewed in a longer timeframe, it is noted that the 30 Days Discount was generally in line with the median and mean of those of the Comparables and the 60 Days Premium was significantly higher than those of the Comparables.

Taking into account that (a) it is common to set the Subscription Price at a discount to the prevailing market prices; (b) the LTD Discount, the Five Days Discount, the 10 Days Discount, the 30 Days Discount and 60 Days Premium are within the range of those of the Comparables, and were generally in line with the median and mean of those of the Comparables when reviewed in a longer timeframe; (c) the Shares had generally closed below the Subscription Price during the Review Period; (d) given the low liquidity of the Shares as illustrated above, it is reasonable to set the Subscription Price at a discount to the prevailing market prices of the Share; and (e) the financing needs of the Company, we consider the Subscription Price of HK\$0.4 to be fair and reasonable.

6. Dilution effect of the Share Subscription on shareholding interest

With reference to the shareholding table in the section headed “Effect on shareholding structure of the Company following the completion of the Share Subscription” of the Letter from the Board, the shareholding interests held by the existing public Shareholders would be diluted by 8.25 percentage points as a result of the Share Subscription (assuming there being no other changes to the issued share capital of the Company between the Latest Practicable Date and the Closing Date). In this regard, taking into account (i) the reasons for and benefits of the Share Subscription; and (ii) the terms of the Share Subscription being fair and reasonable, we are of the view that the said level of dilution to the shareholding interests of the existing public Shareholders as a result of the Share Subscription (being immaterial) is acceptable.

7. Potential financial impacts of the Share Subscription

According to the Letter from the Board, the net proceeds from the Share Subscription will be approximately HK\$39,250,000 and the Company intends to apply part of the net proceeds for, among others, the maintenance and operation of the existing business as well as general working capital of the Group. As such, it is expected that the Share Subscription will lead to an increase in the Company’s cash and cash equivalent while its equity base will also be enlarged.

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Gearing ratio

The gearing ratio of the Group as at 31 December 2021 was approximately 26.5%, calculated based on total loans and borrowings divided by total equity of the Company. Upon completion of the Share Subscription, total assets and net assets of the Group will increase. Accordingly, the gearing level of the Group is expected to decrease.

Working capital

The cash and cash equivalents of the Group amounted to approximately RMB12.9 million as at 31 December 2021. Save for the relevant expenses arising from the Share Subscription, the cash level of the Group will improve by the proceeds from the Share Subscription, which will help replenish the general working capital of the Group.

Net asset value per Share

As disclosed in the 2021 Annual Report, the net assets attributable to the Shareholders was approximately RMB200.6 million as at 31 December 2021. Upon completion of the Share Subscription, total assets and net assets of the Group will increase. Since the Subscription Price of HK\$0.4 per Subscription Share is lower than the NAV per Share of approximately HK\$0.819 as at 31 December 2021, the NAV per Share will decrease upon completion of the Share Subscription.

Notwithstanding the decrease in NAV per Share, considering that the Share Subscription would have an overall positive effect on the financial position of the Group in terms of gearing level, working capital and net asset value of the Group as well as the reasons for and benefits of the Share Subscription as set out above, we are of the view that the Share Subscription is in the interests of the Company and the Shareholders as a whole.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company following completion of the Share Subscription.

OPINION AND RECOMMENDATION

Having taken into consideration the above principal factors and reasons as stated above, in particular:

- (i) the Group has a need to raise additional fund to improve its cash position such that the Group will be able to expand its business and operation scale and to increase its resilience to the challenging macro environment under the COVID-19 pandemic;

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- (ii) as the Group intends to diversify its business, a sufficient cash level would allow the Company to timely capture expansion or diversification opportunities when they arise;
- (iii) the Share Subscription is the most preferable financing option which would provide the Group with the necessary amount of fund with certainty and is more cost effective as compared to other financing alternatives;
- (iv) the Subscription Price falls within the price range of the highest and lowest closing prices of the Shares during the Review Period and the daily closing prices of the Shares were below the Subscription Price in 237 trading days out of 255 trading days (i.e. approximately 92.9% of total trading days) during the Review Period;
- (v) the Share price had at all times closed at a discount to the then NAV per Share ranging from approximately 33.08% to approximately 65.86% with an average of approximately 54.72% throughout the Review Period. The NAV Discount of approximately 51.16% is within the aforesaid range and is lower than the Average Discount; and
- (vi) the LTD Discount, the Five Days Discount, and the 10 Days Discount, the 30 Days Discount and 60 Days Premium are all within the range of those of the Comparables,

we are of the opinion that (i) the terms of the Subscription Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Share Subscription Agreement is conducted in the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Share Subscription Agreement and transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

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. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

Name	Nature of interest	Total number of shares held (L) ⁽¹⁾	Percentage of shareholding
Mr. WEI Jiakun (“ Mr. Wei ”)	Settlor of a discretionary trust; Interest of spouse	150,750,000 (L) ⁽²⁾	50.25%
Ms. LIN Weishan (“ Ms. Lin ”)	Settlor of discretionary trust; Interest of spouse	150,750,000(L) ⁽²⁾	50.25%

Notes:

1. The letter “L” denotes the entity/person’s long position in the Shares.
2. These Shares are held by Ming Liang Global Limited, the entire issued share capital of which is held by Wei Family Limited, which is in turn entirely held by IQ EQ (BVI) Limited, acting as the trustee of The Wei Family Trust. The Wei Family Trust is a discretionary trust established by Mr. Wei, Ms. Lin (the spouse of Mr. Wei) and Ms. LIU Rong (“**Ms. Liu**”, the mother of Mr. Wei) as the settlors and the beneficiaries of The Wei Family Trust include Mr. Wei, Ms. Lin, Ms. Liu and certain family members of Mr. Wei. Each of Mr. Wei, Ms. Lin, Ms. Liu, IQ EQ (BVI) Limited and Wei Family Limited is deemed to be interested in the Shares held by Ming Liang Global Limited by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO).

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, other than the interests of the Directors and chief executive of the Company disclosed in the paragraph headed “DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES” above, the following persons had interests or short position in the shares and underlying Shares as recorded in the register of interests required to be kept by the Company under section 336 of the SFO:

Name	Capacity/nature of interest	Total number of shares held (L) ⁽¹⁾	Percentage of shareholding
Ming Liang Global Limited	Beneficial owner	150,750,000 (L) ⁽²⁾	50.25%
Wei Family Limited	Interest in a controlled corporation	150,750,000 (L) ⁽²⁾	50.25%
IQ EQ (BVI) Limited	Trustee of a trust	150,750,000 (L) ⁽²⁾	50.25%
Mr. Wei	Settlor of a discretionary trust; Interest of spouse	150,750,000 (L) ⁽²⁾	50.25%
Ms. Lin	Settlor of a discretionary trust; Interest of spouse	150,750,000 (L) ⁽²⁾	50.25%
LIU Rong (“Ms. Liu”)	Settlor of a discretionary trust	150,750,000 (L) ⁽²⁾	50.25%
Orient Success Ventures Limited	Beneficial owner	49,500,000 (L) ⁽³⁾	16.50%
WANG Yaqing	Interest in a controlled corporation	49,500,000 (L) ⁽³⁾	16.50%
Power Solution International Holdings Limited	Beneficial owner	24,750,000 (L) ⁽⁴⁾	8.25%
LI Wei	Interest in a controlled corporation	24,750,000 (L) ⁽⁴⁾	8.25%

Notes:

1. The letter “L” denotes the entity/person’s long position in the Shares.
2. These Shares are held by Ming Liang Global Limited, the entire issued share capital of which is held by Wei Family Limited, which is in turn entirely held by IQ EQ (BVI) Limited, acting as the trustee of The Wei Family Trust. The Wei Family Trust is a discretionary trust established by Mr. Wei, Ms. Lin (the spouse of Mr. Wei) and Ms. Liu (the mother of Mr. Wei) as the settlors and the beneficiaries of The Wei

Family Trust include Mr. Wei, Ms. Lin, Ms. Liu and certain family members of Mr. Wei. Each of Mr. Wei, Ms. Lin, Ms. Liu, IQ EQ (BVI) Limited and Wei Family Limited is deemed to be interested in the Shares held by Ming Liang Global Limited by virtue of the SFO.

3. These Shares are held by Orient Success Ventures Limited, which is beneficially owned by Ms. WANG Yaqing. Ms. WANG Yaqing is deemed to be interested in these Shares by virtue of the SFO.
4. These Shares are held by Power Solution International Holdings Limited, which is beneficially owned by Mr. LI Wei as to 50%, and the other two individuals as to 25% and 25%, respectively. Mr. LI Wei is deemed to be interested in these Shares by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

- (i) On 13 April 2021, the Company entered into the equity sale and purchase agreement (the “**Equity Sale and Purchase Agreement**”) with Ming Liang Global, pursuant to which the Company has agreed conditionally to acquire, and Ming Liang Global has agreed conditionally to sell, the 100% of the issued share capital of the target company at a consideration of HK\$64,200,000. The consideration shall be settled by way of (i) issue and allotment of 99,000,000 consideration shares issued at an issue price of HK\$0.32 per consideration share, such that the total value of the Consideration Shares will be HK\$31,680,000, and (ii) issuance of the convertible bonds in the principal amount of HK\$32,520,000.
- (ii) On 12 May 2022, the Company entered into a termination agreement with Ming Liang Global, pursuant to which the Company and Ming Liang Global mutually agreed to terminate the Equity Sale and Purchase Agreement.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, there were no litigation or claim of material importance that is known to the Directors to be pending or threatened against the Group.

6. DIRECTORS' SERVICE CONTRACT

Each of the Executive Directors has entered into a service contract on 11 December 2019 with the Company commencing from the listing date of the Company (i.e. 13 January 2020) for a term of three years unless terminated by either party by giving at least three months' notice in writing to the other party.

Each of the Independent Non-Executive Directors has entered into a service contract on 11 December 2019 with the Company for an initial term of one year commencing on the listing date of the Company (i.e. 13 January 2020) and shall continue for an additional term of one year upon expiry of the initial term unless terminated by either party by giving at least three months' notice in writing to the other party.

7. DIRECTORS INTEREST IN COMPETING BUSINESSES

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to Rule 11.04 of the GEM Listing Rules.

8. DIRECTORS' INTEREST IN ASSETS, CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors had: (i) any direct or indirect interests in any asset which have been since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or lease to any member of the Group; or (ii) any subsisting material interest in any contract or arrangement at the date of this circular which is significant in relation to the business of the Group.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2021, the date to which the latest published audited consolidated accounts of the Group were made up.

10. EXPERTS AND CONSENTS

- (a) The following is the qualifications of the expert who has provided advice referred to or contained in this circular:

Name	Qualification
Rainbow Capital	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong)

- (b) As at the Latest Practicable Date, the expert named above had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.
- (c) The expert named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which it appear.
- (d) As at the Latest Practicable Date, the expert named above did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up).

11. GENERAL

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (b) The head office and principal place of business in the PRC is located at Eastside of Middle of Rongchi Road, Xianqiao, Rongcheng, Jieyang, Guangdong, the PRC.
- (c) The principal place of business of the Company in Hong Kong is located at Room 1202, The Chinese Bank Building, 61 Des Voeux Road Central, Central, Hong Kong.
- (d) The principal share registrar and transfer office of the Company is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (e) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

- (f) The joint company secretaries of the Company are Ms. Kwong Oi Man Patty (“**Ms. Kwong**”) and Mr. Weng Weilin (“**Mr. Weng**”).

Ms. Kwong was appointed as the joint company secretary of the Company on 14 May 2021. Ms. Kwong holds a Bachelor’s Degree of Commerce from Monash University in Australia and she is currently a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. Ms. Kwong currently serves as the company secretary of China Tangshang Holdings Limited (stock code: 0674), Yik Wo International Holdings Limited (stock code: 8659) and Hephaestus Holdings Limited (stock code: 8174), the above companies listed on the Hong Kong Stock Exchange. Ms. Kwong has over 12 years of experience in auditing, accounting and company secretarial practice.

Mr. Weng was appointed as the joint company secretary of the Company on 27 May 2019. Mr. Weng obtained his bachelor’s degree in international business from Guangdong University of Foreign Studies* (廣東外語外貿大學) in June 2009, and his master’s degree in business administration from Cheung Kong Graduate School of Business (長江商學院) in September 2016. Mr. Weng joined the Group in February 2017 as an assistant to the general manager and was primarily responsible for corporate compliance and corporate secretarial matters in the PRC. Prior to joining the Group, Mr. Weng was employed as a sales executive in Shantou Institute of Ultrasonic Instruments Company Limited* (汕頭市超聲儀器研究所有限公司) from July 2009 to September 2012. From December 2014 to January 2017, Mr. Weng was appointed as deputy director of the chief executive’s office at Shantou Dinfer Group Company Limited* (汕頭市鼎福集團有限公司).

- (g) The compliance officer of the Company is Mr. Wei Jiakun.
- (h) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (www.hongguang.hk) for the period of 14 days commencing from the date of this circular:

- (a) The Share Subscription Agreement;
- (b) the written consent of the expert referred to in the section headed “Experts and Consents” in this appendix;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 17 of this circular; and
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 18 to 38 of this circular.

* For identification purpose only

NOTICE OF EGM



China Hongguang Holdings Limited

中國宏光控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8646)

NOTICE OF EXTRAORDINARY GENERAL MEETING

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Please refer to page 1 of the circular of the Company dated 27 June 2022 for the measures to be implemented at the Extraordinary General Meeting by the Company against the epidemic to protect the attendees from the risk of infection of the Novel Coronavirus (“COVID-19”), including:

- **compulsory body temperature check**
- **compulsory wearing of surgical face mask**
- **no distribution of corporate gifts and no serving of refreshments**

Any person who does not comply with the precautionary measures may be denied entry into the Extraordinary General Meeting venue. The Company wishes to advise the Shareholders that you may appoint the Chairman of the Extraordinary General Meeting as your proxy to vote on the relevant resolutions at the Extraordinary General Meeting as an alternative to attending the Extraordinary General Meeting in person.

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**Meeting**”) of China Hongguang Holdings Limited (the “**Company**”) will be held at Jieyang Donghu Grand Hotel, No. 8, South of Wangjiang North Road, West of Donghu Road, Rongcheng District, Jieyang City, Guangdong Province, the PRC on Friday, 15 July 2022 at 3:00 p.m. to transact the following business:

1. To consider and approve the share subscription agreement dated 17 May 2022 (the “**Share Subscription Agreement**”) entered into between the Company as the issuer and Ming Liang Global Limited (“**Ming Liang Global**”) as the subscriber in relation to the subscription of 99,000,000 new shares (the “**Subscription Share(s)**”) at the subscription price of HK\$0.4 per Subscription Share, and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of

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the Subscription Shares to Ming Liang Global and (b) the grant of the specific mandate to the directors for the allotment and issue of the Subscription Shares to Ming Liang Global).

By Order of the Board
China Hongguang Holdings Limited
LIN Weishan
Chairwoman and Executive Director

Hong Kong, 27 June 2022

Notes:

1. A member entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a member of the Company.
2. In order to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority, must be deposited at the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
3. For determining the entitlement to attend and vote at the meeting, the Register of Members of the Company will be closed from Tuesday, 12 July 2022 to Friday, 15 July 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the meeting, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 11 July 2022.
4. According to Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at general meeting of the Company must be taken by poll. Therefore, all proposed resolutions put to the vote at the extraordinary general meeting will be taken by way of poll and the Company will announce the results of the poll in the manner prescribed under Rule 17.47(5) of the GEM Listing Rules.
5. Where there are joint holders of any share, any one of such joint holders may vote at the meeting either personally or by proxy, in respect such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the votes of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders and, for this purpose, seniority shall be determined by the order in which the names of the joint holders stand in the register of members of the Company in respect of the joint holding.