
HISTORY, REORGANISATION AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Our Group was established in April 2011 in Laizhou city, Shandong province, the PRC by Mr. Liu, the founder of our Group. Mr. Liu is the chairman of our Board, an executive Director and a Controlling Shareholder. See “Directors and Senior Management — Board of Directors — Executive Directors” in this document for details on the background of Mr. Liu.

In 2011, Mr. Liu founded HC Mining with a vision for environmental protection in the area of providing gold mine hazardous waste treatment services in the PRC and extracting resources with economic value for sale from gold mine hazardous waste. With much preparation and planning, in 2014, HC Environmental was established for obtaining regulatory approval to carry out the plan to build the production facility in Jincheng town, Laizhou city. Our management team has reached out to potential local customers in the mining industry to advertise our waste recycling solutions. As confirmed by our Directors, we have visited potential customers, introducing our management team, our production facility, our technologies and our vision in environmental protection. We commenced our business relationship with Zhongkuang Gold Industry Company Limited (中礦金業股份有限公司), one of our major customers, in 2014 and have developed a strong and stable relationship with Shandong Gold Smelting Co., Ltd. (山東黃金冶煉有限公司) (a subsidiary of Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司), whose shares are listed on the Main Board (stock code: 1787) and Shanghai Stock Exchange (stock code: 600547)) since 2017. The production facility was completed in June 2014. Our business further expanded when HC Mining completed the production facility in Shahe town, Laizhou city, in July 2019. As at the Latest Practicable Date, the aggregate permitted annual treatment capacity of these two production facilities was 1.16 million tonnes. See “Business” in this document for further details of our business operations.

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Milestones

The key business and corporate milestones of our Group since our establishment are as follows:

Year	Business development
April 2011	Our Group was founded by Mr. Liu with HC Mining in the PRC with the intention to carry out hazardous waste treatment and recycling business
June 2014	We completed the construction of our production facility in Jincheng town, Laizhou city
February 2019	HC Environmental was awarded with the Enterprise Progress Award (企業進步獎) by Laizhou City Municipal Government (萊州市人民政府)
July 2019	We completed the construction of our production facility in Shahe town, Laizhou city
July 2020	We collaborated with Chaoyang NEU Minerals and Metallurgy Institute (朝陽東大礦冶研究院) to carry out a furnace smelting study for gold tailings processing technology
September 2020	We were approved as a standing member by the All-China Environment Federation (中華環保聯合會)
December 2020	HC Mining was awarded 2020 Shandong Top Ten Innovation Achievements Award of Circular Economy (2020年度山東省循環經濟十大創新成果獎) by Shandong Provincial Circular Economy Association (山東省循環經濟協會)
August 2021	HC Mining and HC Environmental were each awarded 2021 Shandong Province “Specialised and Innovative” Small and Medium-sized Enterprises (2021年度山東省“專精特新”中小企業) by the Department of Industry and Information Technology of Shandong Province (山東省工業和信息化廳)

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ESTABLISHMENT AND MAJOR CHANGES CONCERNING MAIN OPERATING SUBSIDIARIES OF OUR GROUP

HC Mining

HC Mining is one of our main operating subsidiaries which principally engages in the provision of gold mine hazardous waste treatment services and the recycling and extraction of resources with economic value for sale from gold mine hazardous waste. It was established in the PRC as a limited liability company on 28 April 2011. At the time of its establishment, HC Mining had a registered capital of RMB10 million, which was fully paid-up on 14 June 2012, and was owned as to 95% by Mr. Liu and 5% by Ms. Yu Hangcheng (“**Ms. Yu**”), an Independent Third Party.

On 8 July 2014, Ms. Yu transferred all her 5% interests in HC Mining to Mr. Liu YS, the father of Mr. Liu, at a consideration of RMB500,000, being the value of 5% of the registered capital of HC Mining, pursuant to an equity transfer agreement dated 7 July 2014. Upon completion of such transfer, the registered capital of HC Mining was owned as to 95% by Mr. Liu and 5% by Mr. Liu YS.

As a result of the Reorganisation, HC Mining became an indirect wholly-owned subsidiary of our Company. For further details, see “History, Reorganisation and Corporate Structure — Reorganisation” in this document.

HC Environmental

HC Environmental is one of our main operating subsidiaries which principally engages in the provision of gold mine hazardous waste treatment services and the recycling and extraction of resources with economic value for sale from gold mine hazardous waste. It was established in the PRC as a limited liability company on 12 February 2014. At the time of its establishment, HC Environmental had a registered capital of RMB1 million, which was fully paid-up on its establishment, and was owned as to 51% by Mr. Liu and 49% by Ms. Li Liyan (“**Ms. Li**”), the spouse of Mr. Liu.

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The historical changes in equity interest of HC Environmental prior to the Reorganisation were set out below:

Date of transfer	Seller	Buyer	Equity interest involved	Consideration	Valuation basis	Ownership after the transfer
24 June 2014	Mr. Liu	Mr. Liu YS	51%	RMB510,000	Value of 51% of the registered capital of HC Environmental	Mr. Liu YS (51%) Mr. Zhan (49%)
24 June 2014	Ms. Li	Mr. Zhan	49%	RMB490,000 ⁽¹⁾	Value of 49% of the registered capital of HC Environmental	Mr. Liu YS (51%) Mr. Zhan (49%)
31 March 2015	Mr. Liu YS	Mr. Zhan	51%	RMB510,000 ⁽²⁾	Value of 51% of the registered capital of HC Environmental	Mr. Zhan (100%)

Notes:

- (1) There was no actual payment of consideration. Mr. Zhan is a trusted employee who has worked for the Liu’s family since he had completed his bachelor degree in 2011. As confirmed by our Directors, since HC Environmental was at the early stage of operation at the material time, such transfer to Mr. Zhan was mutually understood to facilitate Mr. Zhan to manage HC Environmental efficiently and to handle the administrative materials relating to HC Environmental.
- (2) There was no actual payment of consideration. The transfer was to further facilitate Mr. Zhan’s management of HC Environmental.

Shortly afterwards in May 2015, Mr. Liu decided to inject capital to HC Environmental as he believed HC Environmental has strong potential for growth and he requested Mr. Zhan to transfer all his equity interest in HC Environmental to the Liu’s family ahead of the capital injection. On 22 May 2015, Mr. Zhan transferred all of his interests in HC Environmental to Ms. Lv, the mother of Mr. Liu, at a nominal consideration of RMB1.0 million, being the value of the entire registered capital of HC Environmental. Upon such transfer, the beneficial and legal interest of the entire registered capital of HC Environmental was owned by Ms. Lv.

On 30 October 2015, the registered capital of HC Environmental was increased by RMB19.0 million (which was fully paid-up by Mr. Liu on 27 November 2015). Upon such increase, the registered capital of HC Environmental has become RMB20 million and was owned as to 95% by Mr. Liu and 5% by Ms. Lv.

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After the capital injection, further changes of equity interest of HC Environmental prior to the Reorganisation were set out below:

Date of transfer	Seller	Buyer	Equity interest involved	Consideration	Valuation basis	Ownership after the transfer
16 November 2016	Mr. Liu	Ms. Lv	95%	RMB19.0 million	Value of 95% of the registered capital of HC Environmental	Ms. Lv (100%)
20 October 2017	Ms. Lv	Mr. Liu	90%	RMB18.0 million	Value of 90% of the registered capital of HC Environmental	Mr. Liu (90%) Ms. Lv (10%)
3 April 2020	Ms. Lv	Mr. Liu YS	10%	RMB2.0 million	Value of 10% of the registered capital of HC Environmental	Mr. Liu (90%) Mr. Liu YS (10%)

Subsequently as a result of the Reorganisation, HC Environmental became an indirect wholly-owned subsidiary of our Company. For further details, see “History, Reorganisation and Corporate Structure — Reorganisation” in this document.

HC Resources

HC Resources is one of our subsidiaries with the business scope of metal waste processing services; processing and sales of iron powder, building materials, metal products; mine engineering construction; technology research and technology promotion services of mine engineering. It was established in the PRC as a limited liability company on 10 January 2019. At the time of its establishment, HC Resources had a registered capital of RMB50.0 million which was not yet fully-paid as at the Latest Practicable Date and the entire registered capital of which was owned by HC Mining.

On 22 May 2019, the registered capital of HC Resources was increased by RMB100.0 million to RMB150.0 million and such registered capital was not yet fully-paid as at the Latest Practicable Date. Upon such increase, the registered capital of HC Resources was owned as to approximately 33.3% by HC Mining, 33.3% by HC Environmental and 33.3% by Beijing Yutaida. Beijing Yutaida was owned as to 95% by Mr. Liu as at the Latest Practicable Date and will not become part of our Group upon [REDACTED].

On 18 December 2019, Beijing Yutaida transferred its 33.3% equity interest in HC Resources to HC Mining as to 17.67% and HC Environmental as to 15.67% respectively, at nil consideration. As confirmed by our Directors, at the time of such transfers, HC Resources’ registered capital had not been paid at all and HC Resources had no material business operation. Upon completion of such transfers, the registered capital of HC Resources was owned as to 51% by HC Mining and 49% by HC Environmental.

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As advised by our PRC Legal Advisers, although the registered capital of HC Resources has not been fully paid up as at the Latest Practicable Date, it was in compliance with the PRC Company Law and the articles of association of HC Resources.

As at the Latest Practicable Date, approximately RMB4 million out of RMB150 million of the registered capital of HC Resources has been paid up and the remaining portion of RMB146 million was not required to be paid up until 1 December 2023 according to the articles of association of HC Resources.

Shandong Jinjia

Shandong Jinjia is one of our subsidiaries with the business scope of manufacturing of special equipment for environmental protection, manufacturing of special instruments for environmental monitoring, sales of special equipment for environmental protection, technical services, technology development, technical consultation, technical exchanges, technology transfer, technology promotion. It was established in the PRC as a limited liability company on 8 June 2020. Since its establishment and up to the Latest Practicable Date, Shandong Jinjia had a registered capital of USD10.0 million which approximately USD4.5 million has been paid as at the Latest Practicable Date, and the entire registered capital of which was owned by HC Hong Kong. According to the articles of association of Shandong Jinjia, the registered capital shall be payable by 1 January 2025.

As advised by our PRC Legal Advisers, although the registered capital of Shandong Jinjia has not been fully paid up as at the Latest Practicable Date, it was in compliance with the PRC Company Law and Shandong Jinjia’s articles of association.

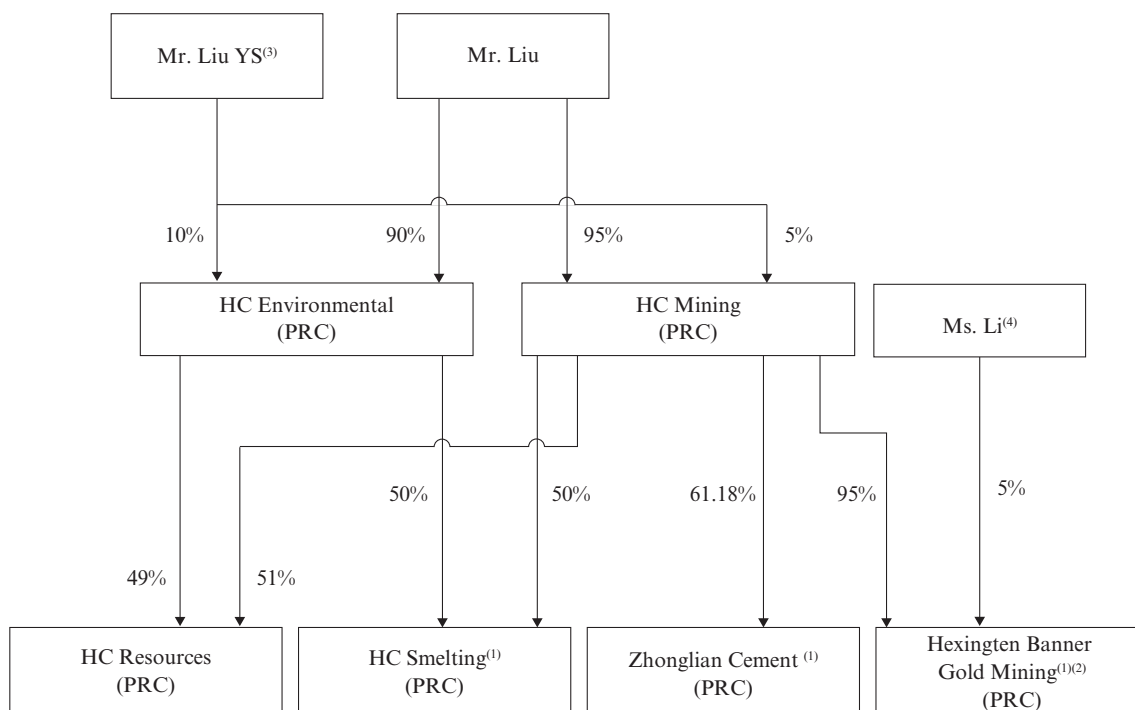
HC R&D

HC R&D is a private non-enterprise entity (民辦非企業單位) established for the purpose of carrying out research and development for our Group. It was established by HC Mining and HC Environmental on 11 June 2020 with the initial set up capital of RMB200,000, which was fully paid up.

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REORGANISATION

The shareholding and corporate structure of our Group immediately prior to the Reorganisation is set out below:



Notes:

1. HC Smelting, Hexingten Banner Gold Mining and Zhonglian Cement would not become our Group’s subsidiaries upon completion of the Reorganisation. The entire registered capital of such companies were disposed of during the Reorganisation. For further details regarding the disposed companies, see “— Reorganisation — Corporate reorganisation — (5) Disposal of various non-group entities and establishment of HC R&D” in this section.
2. Hexingten Banner Gold Mining directly held 100% equity interest of another inactive company Yantai City Jingwei Elderly Care Services Limited (煙臺市璟煒養老服務有限公司), which has been deregistered on 4 December 2020.
3. Mr. Liu YS is the father of Mr. Liu.
4. Ms. Li is the spouse of Mr. Liu.

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Corporate reorganisation

In preparation for the [REDACTED], our Group underwent a group reorganisation involving the following steps, which our Directors consider to have been properly and legally completed and settled:

(1) Incorporation of HC International and HC Hong Kong

HC International was incorporated in the BVI with limited liability on 30 March 2020, which acts as the intermediate holding company of HC Hong Kong. On the date of its incorporation, HC International was authorised to issue a maximum of 50,000 ordinary shares of a single class each with a par value of US\$1.00. On the same day, 1 ordinary share in HC International was allotted and issued, credited as fully-paid, to Mr. Liu at par value. On 16 December 2020, Mr. Liu further applied for 999 ordinary shares in HC International at par value. Upon completion of such allotment and issuance, the entire issued share capital of HC International, which was divided into 1,000 ordinary shares of US\$1.00 each, was owned by Mr. Liu.

HC Hong Kong was incorporated in Hong Kong with limited liability on 16 April 2020, which acts as the intermediate holding company of the main operating subsidiaries of our Group. On the date of its incorporation, the share capital of HC Hong Kong was HK\$1.0 million, comprising 1,000,000 ordinary shares which were allotted and issued to HC International. Upon completion of such allotment and issuance, the entire issued share capital of HC Hong Kong was owned by HC International.

(2) Mr. Sze acquired 2% equity interest in each of HC Mining and HC Environmental

HC Mining

On 30 March 2020, Mr. Liu YS entered into an equity transfer agreement with Mr. Liu and Mr. Sze, respectively, to transfer 3% equity interest in HC Mining at a consideration of RMB300,000 to Mr. Liu and 2% equity interest in HC Mining to Mr. Sze at a consideration of HK\$220,000 (equivalent to RMB200,000). The consideration was mainly determined with reference to the valuation appraised by an independent valuer with respect to the net asset value of HC Mining as at 31 December 2019.

On 10 April 2020, HC Mining completed the registration of changes in shareholders, shareholding structure, and business type for the aforementioned equity transfers. HC Mining became a “Limited Liability Company (with Hong Kong, Macau, Taiwan investment, non-wholly owned)” (有限責任公司(港澳台投資、非獨資)). Mr. Sze has paid such consideration in full on 13 August 2020.

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HC Environmental

On 19 June 2020, Mr. Liu YS entered into an equity transfer agreement with Mr. Liu and Mr. Sze, respectively, to transfer 8% equity interest in HC Environmental at a consideration of RMB1.6 million to Mr. Liu and 2% equity interest in HC Environmental to Mr. Sze at a consideration of HK\$666,700 (equivalent to RMB600,000). The consideration was determined with reference to factors including but not limited to the valuation report prepared by an independent valuer for the net asset value of HC Environmental as at 31 January 2020 and the net asset value of HC Environmental as at 31 May 2020.

On 16 July 2020, HC Environmental completed the registration of changes in shareholders, shareholding structure, and business type for the aforementioned equity transfers. HC Environmental became a “Limited Liability Company (with Hong Kong, Macau, Taiwan investment, non-wholly owned)” (有限責任公司(港澳台投資、非獨資)). Mr. Sze has paid such consideration in full on 25 August 2020.

(3) Establishment of Shandong Jinjia

Shandong Jinjia was established in the PRC as a limited liability company on 8 June 2020 by HC Hong Kong. Shandong Jinjia had a registered capital of USD10.0 million which approximately USD4.5 million has been paid as at the Latest Practicable Date and the entire registered capital of which was owned by HC Hong Kong.

(4) Transfer of 98% equity interest in each of HC Mining and HC Environmental to Shandong Jinjia

HC Mining

Pursuant to an equity transfer agreement dated 11 June 2020 entered into between Mr. Liu and Shandong Jinjia, Mr. Liu transferred all his 98% interests in the registered capital of HC Mining, to Shandong Jinjia at a consideration of RMB9.8 million, with reference to the registered capital of HC Mining. Upon completion of such transfer on 19 June 2020, the registered capital of HC Mining was owned as to 98% by Shandong Jinjia and 2% by Mr. Sze.

HC Environmental

Pursuant to an equity transfer agreement dated 17 July 2020 entered into between Mr. Liu and Shandong Jinjia, Mr. Liu transferred all his interests in the registered capital of HC Environmental, being 98% of its registered capital to Shandong Jinjia at a consideration of RMB19.6 million, with reference to the registered capital of HC Environmental. Upon such transfer on 29 July 2020, the registered capital of HC Environmental was owned as to 98% by Shandong Jinjia and 2% by Mr. Sze.

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(5) Disposal of various non-group entities and establishment of HC R&D

(i) Disposal of Zhonglian Cement

Zhonglian Cement is engaged in cement manufacturing business which is not related to our Group’s business prior to the disposal. On 1 April 2020, HC Mining entered into an equity transfer agreement with Beijing Yutaida, pursuant to which HC Mining transferred its entire equity interest of 61.68% of the registered capital of Zhonglian Cement to Beijing Yutaida at a consideration of RMB24.7 million, which was based on the total registered capital of Zhonglian Cement of RMB40 million. Upon completion of the transfer on 1 April 2020, HC Mining no longer held any equity interest in Zhonglian Cement. Our Directors confirmed that Zhonglian Cement did not have any material non-compliance and was not subject to any legal proceedings before the disposal.

As confirmed by our PRC Legal Advisers, the alteration registration with the relevant company registration authority of Zhonglian Cement’s shareholder related to the aforementioned equity transfer was completed on 1 April 2020.

(ii) Disposal of Hexingten Banner Gold Mining

As confirmed by our Directors, Hexingten Banner Gold Mining was established on 29 July 2010 and acquired by HC Mining and Ms. Li as to 95% and 5% in September 2012 for a potential project on gold prospecting in Inner Mongolia which ceased prematurely due to the fact that the relevant prospecting site was classified as an environmental protection zone by the relevant local authority and has been inactive since then. Hexingten Banner Gold Mining directly held 100% equity interest of another inactive company Yantai City Jingwei Elderly Care Services Limited (煙臺市璟煒養老服務有限公司), which has been deregistered on 4 December 2020. On 20 April 2020, HC Mining entered into an agreement for the disposal of its interests of 95% of the registered capital of Hexingten Banner Gold Mining to Mr. Liu at a consideration of RMB2.85 million, with reference to the registered capital of Hexingten Banner Gold Mining. Upon completion of the transfer on 21 April 2020, HC Mining no longer held any equity interest in Hexingten Banner Gold Mining.

Our Directors confirmed that Hexingten Banner Gold Mining was solvent prior to its disposal, and it did not have any material non-compliance and was not involved in any material litigation prior to its disposal during the relevant Track Record Period. As confirmed by our PRC Legal Advisers, the alteration registration with the relevant company registration authority of Hexingten Banner Gold Mining’s shareholder related to the aforementioned equity transfer was completed on 21 April 2020.

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(iii) Disposal and deregistration of HC Smelting

As confirmed by our Directors, HC Smelting has been inactive since its establishment in June 2019. On 15 July 2020, HC Mining and HC Environmental completed the disposal of their respective interests of 50% of the registered capital of HC Smelting (which in aggregate represented the entire registered capital of HC Smelting) to Beijing Yutaida at nil consideration. Our Directors confirm that the consideration was nil due to it being inactive and the registered capital of HC Smelting had not been paid at all. Upon completion of the transfer on 15 July 2020, HC Smelting was no longer owned by HC Mining and HC Environmental. Subsequent to the disposal, HC Smelting has applied for a simplified deregistration procedure on 22 October 2020 and was deregistered on 23 February 2021.

Our Directors confirmed that HC Smelting was solvent, and it did not have any material non-compliance and was not involved in any material litigation during the relevant Track Record Period prior to its disposal on 15 July 2020 and its deregistration on 23 February 2021. As confirmed by our PRC Legal Advisers, the alteration registration with the relevant company registration authority of HC Smelting’s shareholder related to the aforementioned equity transfer was completed on 15 July 2020.

(iv) Establishment of HC R&D

HC R&D was established under the laws of the PRC as a private non-enterprise entity (民辦非企業單位) on 11 June 2020 by HC Mining and HC Environmental. After its establishment, HC R&D, as a private non-enterprise entity, has separate legal identity but it does not possess any shareholding. As at the Latest Practicable Date, the legal representative of HC R&D is Mr. Sheng, our executive Director. Pursuant to the Interim Regulations on Registration Administration of Private Non-enterprise Entity (民辦非企業單位登記管理暫行條例) promulgated by the State Council in 1998, private non-enterprise entities are private organisations engaged in non-profit social service activities.

As advised by our Directors, when HC R&D was established, after the relevant registration authority has learnt of HC R&D’s business scope, it was suggested that HC R&D could take the form of a private non-enterprise entity. Following the authority’s suggestions and for our corporate social responsibilities, taking into account that (i) the value of a research project should not be measured solely by its profitability; (ii) our ultimate objective is to advance the PRC’s resources in its recycling technology to improve environmental protection; and (iii) we should encourage education and support academic efforts, our Group decided that HC R&D would operate with a non-profit maximisation objective and be dedicated for research and development purposes.

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(6) Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on 12 January 2021, which acts as the ultimate holding company of our Group upon completion of the Reorganisation. On the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. Upon incorporation, one nil-paid Share was allotted and issued to the initial subscriber of our Company which was transferred on the same date to Zeming International. Upon completion of such transfer, the entire issued share capital of our Company was owned by Zeming International.

(7) Transfer of 2% of the registered capital of each of HC Mining and HC Environmental to HC Hong Kong

On 8 January 2021, Mr. Liu transferred 20 shares of HC International, which represented 2% of the issued share capital of HC International in aggregate, to Mr. Sze and on 25 January 2021, Mr. Sze, as vendor, and HC Hong Kong, as purchaser, entered into two equity transfer agreements pursuant to which Mr. Sze transferred his interests held in each of HC Mining and HC Environmental, representing 2% of the registered capital of each of HC Mining and HC Environmental, respectively, to HC Hong Kong. The basis of the transfers were determined based on the 2% equity interest in HC Mining and HC Environmental held by Mr. Sze. Upon completion of such transfers, HC Mining and HC Environmental became indirect wholly owned subsidiaries of HC International, which were both held as to 98% by Shandong Jinjia and 2% by HC Hong Kong, and other subsidiaries now comprising the [REDACTED] Group were all wholly owned subsidiaries of HC International.

(8) Mr. Liu transfers his shares in HC International to the [REDACTED]

On 25 February 2021, Mr. Liu, (as the seller), and each of Mr. Sze, Ace Quality, Golden Clover and Azure Astro, (as the buyers), (collectively referred to as “[REDACTED]”) entered into a sale and purchase agreement for the transfer of certain shares in HC International. Mr. Liu agreed to transfer 13 shares, 64 shares, 60 shares and 57 shares of HC International, (which represented 1.3%, 6.4%, 6.0% and 5.7% of the issued share capital of HC International respectively) to Mr. Sze, Ace Quality, Golden Clover and Azure Astro respectively at a consideration of approximately HK\$4.5 million, HK\$22.3 million, HK\$20.9 million and HK\$19.8 million, respectively. The consideration for such transfers was determined based on commercial negotiations with reference to the net profit for the year ended 31 December 2019 and 2020 of the proposed [REDACTED] group and the corresponding price earning (“P/E”) ratio as well as other factors such as client network and management operation experience. For further details of the [REDACTED], see “[REDACTED]” in this section.

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(9) Transfer of the entire issued share capital of HC International to our Group

On 15 April 2021, Mr. Liu, Mr. Sze, Ace Quality, Golden Clover, and Azure Astro, as the sellers, entered into a sale and purchase agreement with our Company, as the buyer, to transfer all their shares in HC International, representing the entire issued share capital of HC International, to our Company. In consideration of which, our Company credited one nil-paid Share as fully paid and further allotted and issued, credited as fully-paid, 785 Shares to Zeming International, 33 shares to Keen Day, 64 Shares to Ace Quality, 60 Shares to Golden Clover and 57 Shares to Azure Astro. Upon completion of such transfer, HC International became a direct wholly-owned subsidiary of our Company and the issued share capital of our Company became owned as to 78.6% by Zeming International, 3.3% by Keen Day, 6.4% by Ace Quality, 6.0% by Golden Clover and 5.7% by Azure Astro.

Our Directors have consulted with our PRC Legal Advisers in relation to the legal compliance of our Reorganisation in the context of PRC laws and regulations and our Directors confirmed that our Reorganisation is in compliance with the applicable PRC laws and regulations and has been legally properly and completed and settled in such context.

PRC REGULATORY REQUIREMENTS

Circular 37

According to Circular 37 and the Circular 13, domestic residents, including domestic individual residents, are required to file foreign exchange registration with qualified banks before contributing domestic or overseas lawful assets or equity interests in an offshore special purpose vehicle which is directly established or indirectly controlled by the domestic residents for the purpose of overseas investment and financing. In addition, in the event that any change of basic information (including domestic individual resident shareholder, name and operation term) or any change involving material events (including increase or decrease in investment amount, share transfer or exchange, or merger or division) arises in respect of the registered offshore special purpose vehicle, the foreign exchange registration shall be updated. Each of Mr. Liu and other relevant domestic individual residents involved in the [REDACTED] has completed registration as required under Circular 37.

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M&A Rules

According to the Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investor (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which was jointly promulgated by MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC, and the SAFE on 8 August 2006, and amended and came into effect by MOFCOM on 22 June 2009, “merger and acquisition of domestic enterprises by foreign investors” referred to in the M&A Rules shall mean any of the following where a foreign investor: (i) purchases the equity interest of a shareholder in a domestic non-foreign-invested enterprise (the “domestic enterprise”); (ii) subscribes for increased capital of a domestic enterprise so as to convert such domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases and operates the assets of a domestic enterprise by agreement; or (iv) purchases the assets of a domestic enterprise by agreement and then invests such assets to establish a foreign-invested enterprise and operates the assets.

According to Article 11 of the M&A Rules, the merger and acquisition of a domestic company with or by a domestic company, enterprise or individual, that has related party relationship with the target company, in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or individual, shall be subject to examination and approval by MOFCOM. According to Article 39 and Article 40 of the M&A Rules, the overseas listing and transaction of a special purpose company as specified in Article 39.

As advised by our PRC Legal Advisers, in view of the fact that HC Mining and HC Environmental were foreign-invested enterprises when Shandong Jinjia acquired the shares of HC Mining and HC Environmental, the acquisition of HC Mining and HC Environmental by Shandong Jinjia did not apply to Article 11 of the M&A Rules and no approval from MOFCOM is required. At the same time, as our Company is not a special purpose company as specified in Article 39 of the M&A Rules, our PRC Legal Advisers are of the view that the [REDACTED] is not subject to approval by the CSRC.

[REDACTED]

Prior to the [REDACTED] of our Group, Mr. Liu YS (the father of Mr. Liu) transferred certain of his equity interest in certain members of our Group to Mr. Sze in April 2020 and July 2020 (the “[REDACTED]”). Subsequently on 25 February 2021, Mr. Liu entered into agreements with the [REDACTED] to dispose certain of his shareholdings in our Group (the “[REDACTED]”).

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[REDACTED]

On 10 April 2020 and 16 July 2020, Mr. Sze acquired interest of 2% of the registered capital in each of HC Mining and HC Environmental from Mr. Liu YS pursuant to two equity transfer agreements. For further details regarding these two equity transfer agreements, see “— Corporate Reorganisation — (2) Mr. Sze Acquired 2% Equity Interest in each of HC Mining and HC Environmental” above. The consideration of the [REDACTED] was duly transferred to Mr. Liu YS by Mr. Sze in full on 25 August 2020. As the [REDACTED] were transfers of existing equity interest between equity holders, our Group did not benefit from any new [REDACTED].

[REDACTED]

In August 2020, Mr. Liu and each of the [REDACTED] reached a preliminary understanding of the [REDACTED], in which the [REDACTED] intention to [REDACTED] has been confirmed. Due to Reorganisation, the [REDACTED] under the [REDACTED] was confirmed and documented by agreements dated 25 February 2021, pursuant to which Mr. Liu agreed to transfer 13 shares, 64 shares, 60 shares and 57 shares of HC International, which represented 1.3%, 6.4%, 6.0% and 5.7% of its issued share capital, respectively, to Mr. Sze, Ace Quality, Golden Clover and Azure Astro, respectively, at a consideration of approximately HK\$4.5 million, HK\$22.3 million, HK\$20.9 million and HK\$19.8 million, respectively. Such consideration was determined with reference to the net profit of our Group for the years ended 31 December 2019 and 2020 and the corresponding P/E ratio as well as other factors such as client network and management operation experience. As the [REDACTED] were transfers of existing equity interest between Mr. Liu and the [REDACTED], our Group did not benefit from any new [REDACTED].

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A summary of the salient terms of the [REDACTED] and the [REDACTED] made by each of the [REDACTED] are set out below:

	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Name of [REDACTED]	Mr. Sze and Keen Day	Mr. Sze and Keen Day	Mr. Cai QZ and Azure Astro	Mr. Cai YL and Golden Clover	Mr. Chi and Ace Quality
Date of the agreement	30 March 2020 and 19 June 2020	25 February 2021	25 February 2021	25 February 2021	25 February 2021
Consideration paid	HK\$0.9 million	HK\$4.5 million	HK\$19.8 million	HK\$20.9 million	HK\$22.3 million
Basis of consideration	(i) The valuation reports prepared by an independent valuer for the net asset value of HC Mining as at 31 December 2019 and HC Environmental as at 31 January 2020; and (ii) the net asset value of HC Environmental as at 31 May 2020	Commercial negotiations with reference to the net profit for the years ended 31 December 2019 and 2020 of the proposed [REDACTED] group and the corresponding P/E ratio as well as other factors such as client network and management operation experience			
Date on which the consideration was confirmed fully and irrevocably settled	25 August 2020	25 February 2021	25 February 2021	25 February 2021	25 February 2021
Number of Shares subscribed (and approximate percentage of shareholding) in our Company immediately before the [REDACTED] and [REDACTED]	20 Shares (2.0%)	13 Shares (1.3%)	57 Shares (5.7%)	60 Shares (6.0%)	64 Shares (6.4%)
Number of Shares (and approximate percentage of shareholding) in our Company immediately upon [REDACTED] ⁽¹⁾	[REDACTED] Shares ([REDACTED])%	[REDACTED] Shares ([REDACTED])%	[REDACTED] Shares ([REDACTED])%	[REDACTED] Shares ([REDACTED])%	[REDACTED] Shares ([REDACTED])%
[REDACTED] cost per Share	HK\$[REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]
Discount to the mid-point of the indicative [REDACTED] range ⁽²⁾	[REDACTED]%	[REDACTED]%	[REDACTED]%	[REDACTED]%	[REDACTED]%
Lock-up period	Will not be subject to lock-up	Will not be subject to lock-up	Will not be subject to lock-up	Will not be subject to lock-up	Will not be subject to lock-up

Notes:

- (1) Based on the number of Shares held by each of the [REDACTED] and the total number of Shares in issue upon completion of the [REDACTED] and the [REDACTED], without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] (if any) and any options which may be granted under the Share Option Scheme.
- (2) Based on the [REDACTED] of HK\$[REDACTED] per Share (being the mid-point of the indicative [REDACTED] range).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Special rights granted to the [REDACTED]

No special rights were granted to any of the [REDACTED].

Guarantee

No performance guarantee of our Group was granted by Mr. Liu or Mr. Liu YS to any of the [REDACTED].

[REDACTED]

In view of (i) each of the [REDACTED] is an Independent Third Party and independent among one another; and (ii) none of them will become a substantial Shareholder upon [REDACTED], the Shares held by each of the [REDACTED] immediately after the [REDACTED] will be considered as part of the [REDACTED] for the purpose of Rule 8.08 of the Listing Rules.

Valuation regarding the [REDACTED]

The [REDACTED] were transfer of equity interest between equity holders which our Group did not take part in the commercial negotiation. Details of the valuations conducted at the time of the [REDACTED] were set out as follow:

[REDACTED]

The transaction parties have mainly taken into account the net asset value of HC Environmental and HC Mining to determine the [REDACTED] price. Accordingly, Yantai Huaxin Asset Appraisal Firm (煙臺華信資產評估事務所), an independent valuer, was engaged to prepare the valuation reports based on the net asset value by asset-based approach. The valuation of the entire equity interest of HC Mining was RMB10.0 million as at 31 December 2019 and HC Environmental was RMB29.6 million as at 31 January 2020.

[REDACTED]

The valuation of the [REDACTED] was commercially negotiated between Mr. Liu and the [REDACTED] without referencing to valuation reports. In August 2020, Mr. Liu and each of the [REDACTED] reached an understanding to transfer shares of our Group at a basic valuation of RMB3 million per each one percentage shareholding of our Group prior to the [REDACTED]. Such valuation was mainly determined with reference to the net profit of our Group for the year ended 31 December 2019, which was approximately RMB48.5 million. Along with the basic valuation, while waiting for certain procedures of the Reorganisation, the transactions parties further reviewed the prospects of our Group including the unaudited net profit of our Group for the year ended 31 December 2020, client network and management operation experience, before the [REDACTED] was concluded on 25 February 2021.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Information about the [REDACTED]

Ace Quality mainly engages in investment activities and is wholly, ultimately and beneficially owned by Mr. Chi. Mr. Chi is a local resident in Laizhou city in Shandong province, where our Group is headquartered. He has experience in investment involved in the trading of agricultural fertilisers and the beverage business. Mr. Chi graduated from Jinan Army Academy (濟南陸軍學院) with a degree in law in 2004. He is a personal friend of Mr. Liu who has known each other for over 20 years. Mr. Chi is currently the general manager of a beverage business in Laizhou city. Being a local resident and businessman in Laizhou city, Mr. Chi has local connections and he occasionally recommends potential customers to our Group.

Keen Day mainly engages in investment activities and is wholly, ultimately and beneficially owned by Mr. Sze. Mr. Sze is a Hong Kong permanent resident with over 20 years of investment experience. He has experience in investment mainly involved in logistics, trading and real estate businesses. Mr. Sze graduated from Fujian Radio and Television University (福建廣播電視大學) with a degree in finance in 1986. Mr. Sze was introduced to Mr. Liu and Mr. Liu YS through a mutual friend in 2019. As confirmed by Mr. Sze, he is interested in investing in waste management and recycling business as he considered the industry is in line with PRC national policy and will receive strong support. After knowing Mr. Liu’s business, in March 2020, Mr. Sze approached Mr. Liu YS, who was thinking of retirement at the time, and Mr. Sze and Mr. Liu YS eventually reached an agreement that Mr. Sze would purchase from Mr. Liu YS 2% of the registered capital in each of the operating subsidiaries of our Group and Mr. Liu would take up the remaining part of Mr. Liu YS’s equity interest. Subsequently in the [REDACTED], Mr. Sze reached an agreement with Mr. Liu to acquire further 1.3% shareholding in our Group. Mr. Sze is a Hong Kong businessman who has contacts in Hong Kong and China. Mr. Liu believes Mr. Sze can introduce PRC and foreign investors and strategic partners to our Group.

Azure Astro mainly engages in investment activities and is wholly, ultimately and beneficially owned by Mr. Cai QZ. Mr. Cai QZ is a PRC citizen with over 30 years of business and investment experience. As confirmed by Mr. Cai QZ, he got acquainted with Mr. Liu around the end of 2018 through the introduction of a friend from the Overseas Chinese Chamber of Commerce in Shandong Province (山東省僑商協會). Mr. Cai QZ is a businessman who commenced operating businesses over 30 years ago and has engaged in a wide range of industries and has good social network resources. Mr. Cai QZ founded various companies with business areas in food products and trading, production of building materials and automobile exhibitions, services and sales. With Mr. Cai QZ’s wealth of business experience and connection, Mr. Liu believes his [REDACTED] in our Group can bring along valuable development and business opportunities.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Golden Clover mainly engages in investment activities and is wholly, ultimately and beneficially owned by Mr. Cai YL. Mr. Cai YL is a Hong Kong permanent resident residing in Hong Kong with over 10 years of investment experience. Mr. Cai YL has previously engaged in various investments including solar panels equipment trading, real estates and mining and energy related areas. As confirmed by Mr. Cai YL, he got acquainted with Mr. Liu around the end of 2019 through the introduction of a mutual friend. Mr. Cai YL foresaw our Group’s business prospects and future development and he decided to invest in our Group. Mr. Cai YL often travels between Hong Kong and the mainland to search for different investment opportunities, and his investments are distributed in China and Hong Kong. As confirmed by our Directors, Mr. Cai YL and Mr. Cai QZ know of each other but there are no family, business or employment relationship between them. Mr. Cai YL and Mr. Cai QZ also confirmed that the investment in the [REDACTED] were funded by themselves, and other than the [REDACTED], they do not have any other common investment for non-listed securities.

Strategic strengths and benefits to our Group

Our Group became acquainted with the [REDACTED] through the introduction by Mr. Liu, who was acquainted with the [REDACTED] through his own personal network. Our Directors are of the view that the [REDACTED] are beneficial to our Group mainly by assisting in broadening our shareholder base prior to the [REDACTED] and that our Company could benefit from the [REDACTED] commitment to our Company as the [REDACTED] demonstrate their confidence in the operations of our Group and serves as an endorsement of our performance, strength and prospects. In particular, with Keen Day and Mr. Sze and Golden Clover and Mr. Cai YL as our Shareholders, it will allow us to benefit from the experience and business networks of Mr. Sze and Mr. Cai YL in the capital market in Hong Kong through their extensive investment experience and knowledge in the capital market of Hong Kong. By leveraging on Mr. Chi and Mr. Cai QZ’s local business connections and network and relevant industry experience in the PRC, our Directors believe that Mr. Chi and Mr. Cai QZ will (i) provide market insights and valuable recommendations to our Group on our operations and strategic development suggestions and opportunities; and (ii) recommend potential customers to our Group which shall further improve our position in the market.

Compliance with Interim Guidance and Guidance Letters on [REDACTED]

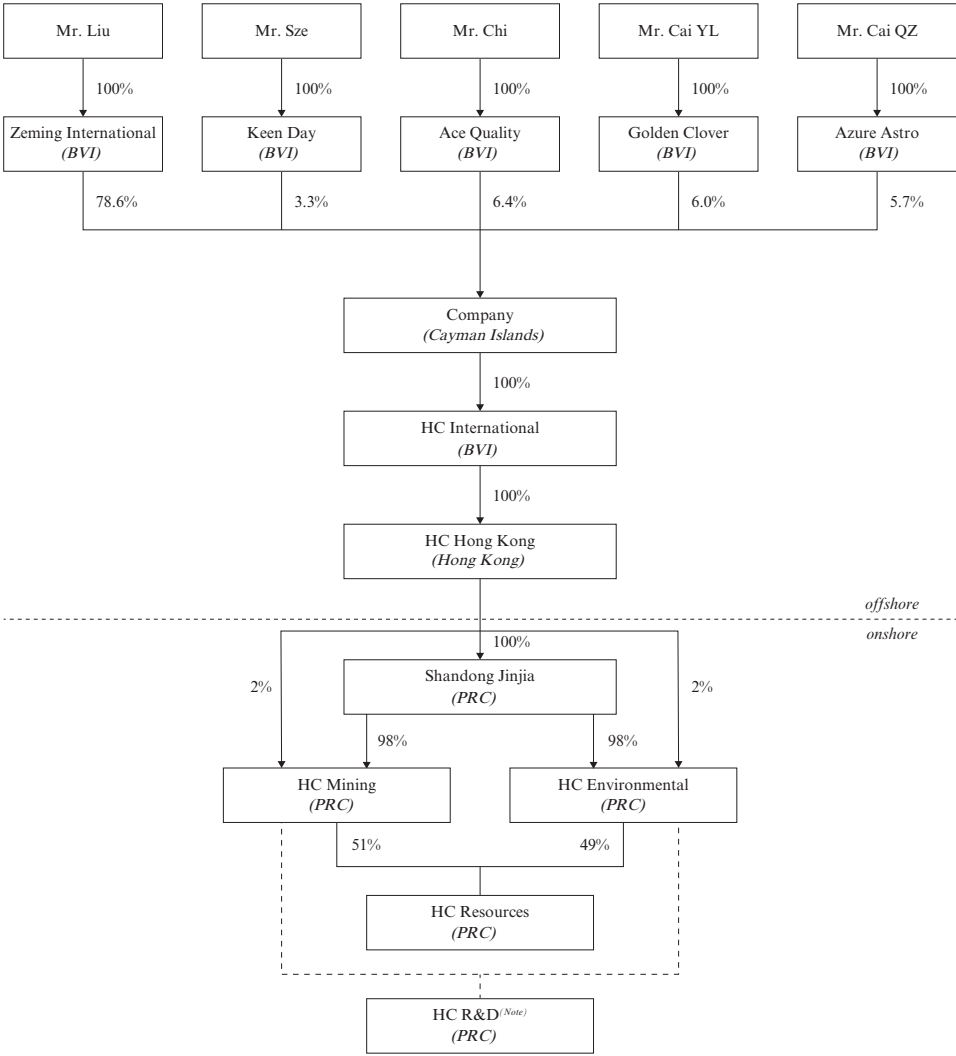
After reviewing the terms of the [REDACTED], and given that (i) no special rights granted to the [REDACTED] will survive after the [REDACTED] in respect of the [REDACTED]; and (ii) the [REDACTED] were completed more than 28 clear days before the date of submission of the application for the [REDACTED], the Sole Sponsor confirms that the [REDACTED] are in compliance with the Guidance Letters HKEx-GL29-12 (January 2012) (updated in March 2017) and HKEx-GL43-12 (October 2012) (updated in July 2013 and March 2017).

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HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

The shareholding and corporate structure of our Group immediately following completion of the Reorganisation and prior to the [REDACTED] and the [REDACTED] is set out below:

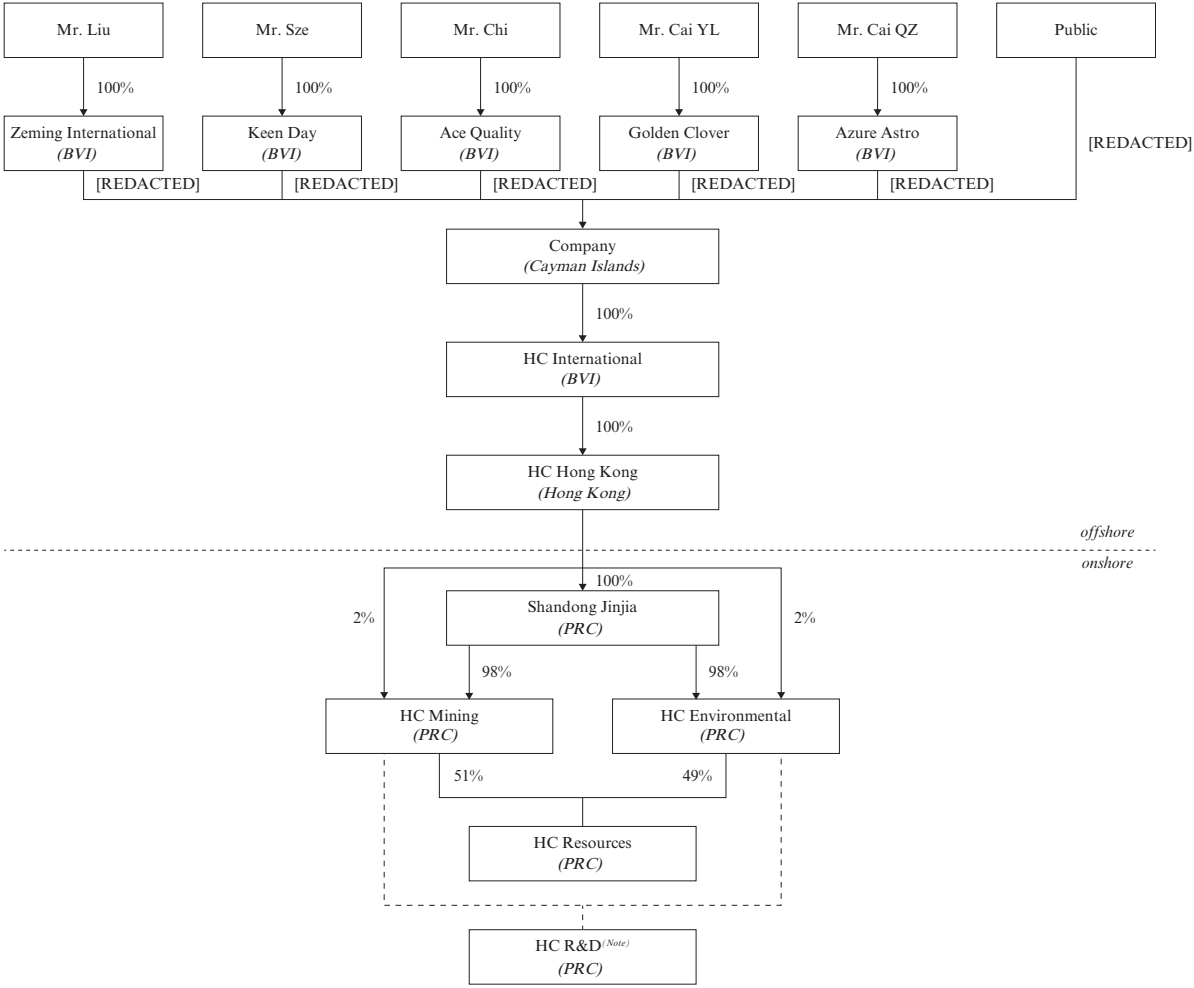


Note: HC R&D is a private non-enterprise entity (民辦非企業單位) established by HC Mining and HC Environmental.

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HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The shareholding and corporate structure of our Group immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] (if any) and any options which may be granted under the Share Option Scheme) is set out below:



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