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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Rare Earth Magnesium Technology Group Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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稀鎂科技
REMT

稀鎂科技集團控股有限公司

RARE EARTH MAGNESIUM TECHNOLOGY GROUP HOLDINGS LIMITED

(in provisional liquidation)

(for restructuring purposes only)

(Incorporated in Bermuda with limited liability)

(Stock Code: 601)

**PROPOSED CAPITAL REORGANISATION;
PROPOSED RESTRUCTURING INVOLVING, INTER ALIA, CREDITORS' SCHEME;
PROPOSED ISSUE OF SCHEME SHARES AND CONVERTIBLE BONDS UNDER
SPECIFIC MANDATE;
CONNECTED TRANSACTION IN RELATION TO PROPOSED ISSUE OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
AND
NOTICE OF SPECIAL GENERAL MEETING**

Financial Adviser



BAOQIAO PARTNERS CAPITAL LIMITED

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



Terms used in this cover shall have the same meanings as defined in this circular.

The letter from the Board is set out on pages 15 to 53 of this circular.

A letter of advice from Gram Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 56 to 71 of this circular. A notice convening the SGM to be held at 2:30 p.m. on 25 May 2022 at 16th Floor, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong is set out on pages SGM-1 to SGM-5 of this circular.

Whether or not you are able to attend and/or vote at the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instruction printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

Please see page ii of this circular for measures being taken to try to prevent and control the spread of the COVID-19 at the SGM, including but not limited to:

- compulsory temperature checks,
- compulsory wearing of surgical face masks
- no refreshments will be served

Any person who does not comply with the precautionary measures may be denied entry into the SGM venue.

The Company reminds Shareholders that they may appoint the chairman of the meeting as their proxies to vote on the relevant resolution(s) at the SGM as an alternative to attending the SGM.

Hong Kong, 3 May 2022

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following preventive measures at the SGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted on every attendee at the entrance of the SGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the SGM venue.
- (ii) All attendees may be asked whether he/she (a) has travelled outside of Hong Kong within the 14-day period immediately before the SGM; and (b) is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions will be denied entry into the meeting venue. We will also report to relevant authorities for the breach of quarantine required.
- (iii) The Company requires attendees to wear surgical face masks inside the SGM venue at all times, and to maintain a safe distance between seats.
- (iv) No refreshments will be served.

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

In the interest of all stakeholders' health and safety and consistent with the COVID-19 guidelines issued by the Government of Hong Kong (available at www.chp.gov.hk/en/features/102742.html), the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxies to vote on the relevant resolution(s) at the SGM instead of attending the SGM in person.

DEFINITIONS

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

“Adjourned Scheme Meeting(s)”	the meeting(s) of the Scheme Creditors, which has been adjourned for 14 days from 15 February 2022 to 1 March 2022 for the purpose of considering and, if thought fit, approving the Creditors’ Scheme by the Scheme Creditors
“Admitted Claim(s)”	a Claim held by a Scheme Creditor against the Company which has been admitted by the Scheme Administrators or the adjudicators in accordance with the Creditors’ Scheme, including claims that have been admitted following adjudication
“Announcement”	the announcement of the Company dated 18 January 2022 in relation to (i) the proposed Capital Reorganisation and the proposed change in board lot size; (ii) the Proposed Restructuring involving the Creditors’ Scheme, the proposed issue of Scheme Shares and Convertible Bonds under Specific Mandate and the connected transaction in relation to the proposed issue of Convertible Bonds under Specific Mandate
“Associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Baishan Guarantee”	the guarantee to be provided and executed by Baishan Tianan in favour of the Scheme Company for guaranteeing (i) the Company’s punctual payment of Interim Payment (if payable) and the Final Payment, and (ii) that if after the lapse of two (2) Scheme Years the Baishan Mine fails to generate any revenue according to the audited financial statements of Baishan Tianan, Baishan Tianan shall dispose of the Baishan Mine and the resultant proceeds, after deduction of relevant costs and expenses shall be wholly applied to the satisfaction of outstanding Admitted Claims of Term Extension Option Creditors
“Baishan Mine”	a dolomite mine situated in Baishan, the PRC, beneficially owned by Baishan Tianan

DEFINITIONS

“Baishan Pledges”	the share pledges to be respectively provided by (i) Sure Sino Global Limited and Fullocean Group Limited, both being BVI-incorporated wholly-owned subsidiaries of the Company, in respect of their shareholdings in China Rare Earth Magnesium Technology Holdings Limited, which is in turn the sole shareholder of Baishan Tianan, and (ii) China Rare Earth Magnesium Technology Holdings Limited, in respect of its shareholdings in Baishan Tianan, in favour of the Scheme Company
“Baishan Tianan”	白山市天安金屬鎂礦業有限公司 (Baishan City Tianan Magnesium Resources Co., Ltd.), a company incorporated under the laws of the PRC and a wholly-owned subsidiary of the Company
“Bermuda”	the Islands of Bermuda
“Bermuda Companies Act”	the Companies Act 1981 of Bermuda (as amended from time to time)
“Bermuda Court”	the Supreme Court of Bermuda
“Bermuda Petition”	the petition presented by the Company on 3 July 2020 in the Bermuda Court seeking the winding-up of the Company
“Board”	the board of Directors
“Bondholder(s)”	the holder(s) of the Convertible Bonds
“Business Day(s)”	a day (excluding a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time and remaining in effect between 9:00 a.m. and 5:00 p.m. and is not discontinued at or before 12:00 noon) on which banks are generally open for business in Hong Kong
“BVI Entities”	four wholly-owned subsidiaries of Century Sunshine incorporated in the British Virgin Islands including (1) New Bright Group Limited, (2) Ming Xin, (3) Long Xiang Enterprises Limited and (4) Acronagrotrans Ltd., all of which have been placed into provisional liquidation for the purposes of restructuring only

DEFINITIONS

“Bye-Laws”	the existing bye-laws of the Company and “Bye-Law” shall be construed accordingly
“Capital Reduction”	the proposed reduction of the nominal value of each issued Consolidated Share from HK\$2.00 to HK\$0.01 by cancelling the paid-up capital by HK\$1.99 on each of the issued Consolidated Shares
“Capital Reorganisation”	the proposed reorganisation of share capital of the Company by way of (i) Share Consolidation; (ii) Capital Reduction and (iii) Share Sub-division
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Century Sunshine”	Century Sunshine Group Holdings Limited (Provisional Liquidators Appointed for Restructuring Purpose Only), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 509)
“Century Sunshine Group”	Century Sunshine and its subsidiaries (excluding the Group)
“Century Sunshine Potential Guarantee”	the guarantee that Century Sunshine undertakes to provide to the Scheme Company for the purpose of guaranteeing the Company’s punctual payment of the Interim Payment (if payable) and the Final Repayment
“Century Sunshine Proposed Scheme”	the proposed scheme of arrangement to be entered into between Century Sunshine, the BVI Entities and other relevant entities and their respective creditors, the terms of which are subject to further negotiations between Century Sunshine, BVI Entities and other relevant entities and their respective creditors as of the date of this Scheme Document

DEFINITIONS

“Century Sunshine Proposed Scheme Potential Repayment”	a payment that may be made to Term Extension Option Creditors on a <i>pro rata</i> basis in respect of their unsettled Admitted Claims if there is any balance of assets under the Century Sunshine Proposed Scheme after the satisfaction of the liabilities under the Century Sunshine Proposed Scheme (after deduction of all relevant tax, costs and expenses)
“Century Sunshine Scheme Company”	a company to be incorporated in Hong Kong with limited liability, being a special purpose vehicle held and controlled by the scheme administrators of the Century Sunshine Proposed Scheme, or such other company as may be nominated by the scheme administrators of the Century Sunshine Proposed Scheme
“Claim(s)”	any debt, liability or obligation of the Company which arose on or before the Joint Provisional Liquidators’ Appointment Date, whether known or unknown, whether certain or contingent, whether present, future or prospective, whether liquidated or unliquidated, whether arising at common law, in equity or by statute in Hong Kong, Bermuda, or in any other jurisdiction or in any manner whatsoever and which includes without limitation a debt or liability to pay money or money’s worth, any liability for breach of trust, any liability in contract, tort or bailment and any liability arising out of an obligation to make restitution, any liability arising out of any legal claims, whether certain or contingent together with all interest on such debt, obligation or liability
“Companies Ordinance”	Companies Ordinance, Chapter 622 of the Laws of Hong Kong
“Company”	Rare Earth Magnesium Technology Group Holdings Limited (Provisional Liquidators Appointed for Restructuring Purposes Only), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 601)
“Connected person(s)”	has the same meaning ascribed to it under the Listing Rules

DEFINITIONS

“Consent Fee”	a one-off payment in addition to the Scheme Consideration Entitlement to be made to each Consenting Creditor, being an amount equal to 3% of the principal amount of debt owed by the Company to him/her/it, excluding any interest accrued or to be accrued
“Consenting Agreement”	an agreement dated 27 September 2021 offered to all Scheme Creditors between the Company and the Consenting Creditors which sets out the basis upon which a Scheme Creditor shall facilitate the implementation of the Proposed Restructuring
“Consenting Creditor”	a Scheme Creditor who is a party to, has executed, or acceded to the Consenting Agreement prior to 11:59 p.m. on 10 November 2021, and the Consenting Agreement has not subsequently terminated in accordance with its terms
“Consolidated Share(s)”	shares of HK\$2.00 each in the share capital of the Company upon the Share Consolidation taking effect
“Conversion Price”	the price at which each Conversion Share (subject to adjustment) is to be issued upon exercise of the conversion rights attached to the Convertible Bonds, initially being HK\$1.20 per Conversion Share (after adjustment due to the Capital Reorganisation)
“Conversion Share(s)”	New Shares to be issued upon exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the zero-coupon convertible bonds to be issued by the Company to Convertible Bond Option Creditors in the amount of their respective Admitted Claims elected for the Convertible Bonds Swap Option
“Convertible Bonds Swap Option”	an option of the Proposed Restructuring available for Scheme Creditors to elect, in full or in part, to convert their Admitted Claims into Convertible Bonds
“Convertible Bonds Option Creditor(s)”	a Scheme Creditor to the extent his/her/its Admitted Claim is elected for the Convertible Bonds Swap Option

DEFINITIONS

“Creditors’ Scheme”	the proposed scheme of arrangement for the Company to be made between the Company and the Scheme Creditors under Part 13 of the Companies Ordinance, as amended, supplemented or otherwise modified from time to time
“Debt Instrument”	the instrument out of which the Scheme Creditor’s Claim arises
“Director(s)”	the director(s) of the Company
“Early Repayment”	payment(s) that may or may not be made by the Company, at the Company’s absolute discretion, to Term Extension Option Creditors for settlement of their unsettled Admitted Claims, in full or in part, at any time during the Extended Term
“Extended Term”	the period between the Scheme Effective Date and the 5th anniversary of the Scheme Effective Date
“Final Payment”	final payment of an amount equal to the aggregate outstanding balance of Admitted Claims of the Term Extension Option Creditors (after deducting(s) Interim Payment(s) and Early Repayment(s) and Century Sunshine Proposed Scheme Potential Repayment received by Term Extension Option Creditors) to be transferred by the Company to the Scheme Company
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Court”	the High Court of Hong Kong
“Hong Kong Petition”	the winding up petition presented by AI Global Investment SPC against the Company in the Hong Kong Court

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors (excluding Mr. Cheung Sound Poon who is an independent non-executive director of both Century Sunshine and the Company), formed for the purpose of advising the Independent Shareholders in respect of the proposed Creditors’ Scheme and the transactions contemplated thereunder
“Independent Financial Adviser”	Gram Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company for the purpose of giving recommendations to the Independent Board Committee and the Independent Shareholders in respect of the connected transaction in relation to the proposed issue of the Convertible Bonds
“Independent Shareholders”	Shareholders other than Ming Xin, other Scheme Creditors and their respective associates and any other Shareholders with a material interest in the proposed Creditors’ Scheme, who are required under the Listing Rules to abstain from voting on the ordinary resolutions to be proposed at the SGM to approve, <i>inter alia</i> , the Creditors’ Scheme
“Independent Third Parties”	an independent third party, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, who is not connected with the Company and its connected persons
“Interim Payment”	interim distribution that the Term Extension Option Creditors may be entitled to pursuant to the terms of the Creditors’ Scheme during the Extended Term
“Issue Price”	the price at which the Scheme Shares are to be issued at HK\$1.20 per New Share (after adjustment due to the Capital Reorganisation)
“Latest Practicable Date”	26 April 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein

DEFINITIONS

“Joint Provisional Liquidators”	Ms. So Kit Yee Anita of Ernst & Young Transactions Limited, Mr. Roy Bailey of Ernst & Young Ltd, and Ms. Tammy Karina Fu of EY Cayman Ltd, the joint provisional liquidators of the Company as ordered by the Bermuda Court on 16 July 2020, acting without personal liabilities
“Joint Provisional Liquidators’ Appointment Date”	16 July 2020, being the date of the Bermuda Court order appointing the Joint Provisional Liquidators
“Last Trading Day”	17 January 2022, being the date prior to the publication of the Announcement for ascertaining certain information for inclusion in the Announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ming Xin”	Ming Xin Developments Limited, being the controlling shareholder of the Company incorporated in the British Virgin Islands
“New Share(s)”	the ordinary share(s) of par value HK\$0.01 each in the issued and unissued share capital of the Company upon the Capital Reorganisation becoming effective
“Option”	an option to subscribe for Shares granted pursuant to the Share Option Scheme
“Person(s)”	includes any individual, company, enterprise or other economic organisation, government authority or agency, or any joint venture, association or partnership, trade union or employee representative body (whether or not having separate legal personality) and includes a reference to that person’s successors and permitted assigns

DEFINITIONS

“Preferential Claim(s)”	a claim admitted by the Joint Provisional Liquidators or the Scheme Administrators as a preferential claim, including the petition costs (the legal costs of the petitioners of the Bermuda Petition and the Hong Kong Petition), which would, if the Company was wound up on the Joint Provisional Liquidators’ Appointment Date, have been payable out of the assets of the Company pursuant to Section 265 of Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong which is subject to adjudication
“Preference Indication Date”	the date to be determined by the Scheme Administrators after the Scheme Effective Date by which Scheme Creditors are to indicate their preferred allocations of their Claims to the Term Extension Option / the Convertible Bonds Swap Option
“Proposed Restructuring”	the proposed debt restructuring of the Company involving, among other things, the Term Extension Option and the Convertible Bonds Swap Option
“Restructuring Costs”	all costs, charges, expenses and disbursements necessary and properly incurred before the Scheme Effective Date, in connection with the costs incurred by the Joint Provisional Liquidators and their agents, attorneys and professional advisors appointed for restructuring purpose, including preparation of the Creditors’ Scheme
“Sanction Hearing”	the hearing at which the Court will consider sanctioning the Creditors’ Scheme
“Sanction Order”	the order by the Court sanctioning the Creditors’ Scheme (with or without modification)
“Scheme Administrators”	the persons appointed under the Creditors’ Scheme as the scheme administrators
“Scheme Company”	a company to be incorporated in Hong Kong with limited liability, being a special purpose vehicle held and controlled by the Scheme Administrators, or such other company as may be nominated by the Scheme Administrators

DEFINITIONS

“Scheme Consideration Entitlement”	the consideration to which a Scheme Creditor with an Admitted Claim is entitled under the Creditors’ Scheme
“Scheme Costs”	costs, charges, expenses and disbursements necessary and properly incurred on and after the Scheme Effective Date, by the Scheme Administrators including, <i>inter alia</i> , the Scheme Administrators’ fees and out-of-pocket disbursements in connection with the administration and implementation of the Creditors’ Scheme
“Scheme Creditor(s)”	any person having a Claim which is not a person having Preferential Claims (to the extent of the part of such person’s claim which may be a Preferential Claim) or Secured Claim (and where the Claim is only in part a Secured Claim, then the Person is a Scheme Creditor only to the extent of the unsecured part of the Claim (i.e. after deducting the value of the Security Interest))
“Scheme Effective Date”	the date on which the Creditors’ Scheme becomes effective, being the date of delivery of an office copy of the Hong Kong Court Order sanctioning the Creditors’ Scheme to the Registrar of Companies in Hong Kong for registration and upon the fulfilment of all the conditions precedent at Part 3 of Part III of the Creditors’ Scheme
“Scheme Shares”	65,843,900 New Shares (equivalent to 1,316,878,010 Shares as at the date of this announcement after adjustment due to the Capital Reorganisation and assuming there will be no change to the share capital of the Company from the date of this announcement to the date of the allotment and issue of Scheme Shares other than the Proposed Capital Reorganisation) to be allotted and issued by the Company to the Scheme Company pursuant to the terms of the Creditors’ Scheme
“Scheme Year(s)”	five years during the Extended Term with the first year starting from the Scheme Effective Date and ending on the first anniversary of the Scheme Effective Date, and thereafter each year between the first, the second, the third, the fourth and the fifth anniversary of the Scheme Effective Date
“Secured Claim(s)”	claim(s) which are secured by any Security Interest

DEFINITIONS

“Security Interest(s)”	any mortgage, pledge, lien, charge, other encumbrance, hypothecation or security interest of whatsoever kind, or any other agreement or arrangement having the effect of containing security including any proceeds or realization of any of the above held by creditor(s) whose claims are secured by Security Interest provided by the Company to secure the obligations of the Company
“September Announcement”	the Company’s announcement dated 10 September 2021
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened and held by the Company for the purpose of considering and, if thought fit, approving (i) the Creditors’ Scheme and the transactions contemplated thereunder, including the grant of the Specific Mandate; and (ii) the Capital Reorganisation
“Shandong Hongri”	山東紅日化工股份有限公司 (Shandong Hongri Chemical Joint Stock Company Limited), an indirect non-wholly owned subsidiary of Century Sunshine
“Shandong Lands”	land registered under the name of Shandong Hongri located in Shandong, PRC which are proposed to be disposed of by sale for the purposes of the Century Sunshine Proposed Scheme
“Share(s)”	the ordinary shares of HK\$0.10 each in the share capital of the Company prior to the Capital Reorganisation becoming effective
“Share Consolidation”	the proposed consolidation of every 20 issued and unissued Shares of HK\$0.10 each will be consolidated into one Consolidated Share of HK\$2.00 each
“Share Option Scheme”	the share option scheme adopted by the Company on 4 December 2017
“Share Sub-division”	the possible sub-division of each authorised but unissued Consolidated Share into two hundred (200) New Shares in the authorised but unissued share capital of the Company

DEFINITIONS

“Shareholder(s)”	the holder(s) of the Share(s) or New Shares (as applicable) from time to time
“Specific Mandate”	the specific mandate to be granted by the Independent Shareholders to the Board at the SGM for the allotment and issue of Scheme Shares and Conversion Shares for the purpose of the proposed Creditors’ Scheme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Term Extension Option”	an option of the Proposed Restructuring available for Scheme Creditors to elect, in full or in part of their Admitted Claims, to extend the repayment deadline of their relevant Debt Instrument for a period of five (5) calendar years beginning on the Scheme Effective Date, for which such Scheme Creditors shall be entitled to the Scheme Shares, Interim Payment(s), the Final Payment, the Early Repayment and Century Sunshine Proposed Scheme Potential Repayment, as dictated by context.
“Term Extension Option Creditor(s)”	a Scheme Creditor to the extent his/her/its Admitted Claim is allotted to the Term Extension Option
“Term Extension Share Placement”	the issue of the Scheme Shares under the terms of the Creditors’ Scheme

EXPECTED TIMETABLE

The expected timetable for the Capital Reorganisation is set out below. The expected timetable is subject to the results of the SGM, the Sanction Hearing (i.e., fixed on 27 May 2022 at 2:30 pm) and satisfaction of the conditions to the Capital Reorganisation and is therefore for indicative purpose only. Any change to the expected timetable will be announced in a separate announcement by the Company as and when appropriate. All times and dates in this circular refer to Hong Kong local times and dates.

	Date
Despatch date of the Circular with notice of the SGM and form of proxy	On or before Tuesday, 3 May 2022
Latest date and time for lodging transfer documents in order to qualify for attending and voting at SGM	4:30 p.m. on Thursday, 19 May 2022
Closure of register of members for determining the entitlement to attend and vote at the SGM (both dates inclusive)	Friday, 20 May 2022 to Wednesday, 25 May 2022
Latest date and time for lodging the proxy form for the SGM	2:30 p.m. on Monday, 23 May 2022
SGM	2:30 p.m. on Wednesday, 25 May 2022
Announcement of results of the SGM	Wednesday, 25 May 2022
<p style="text-align: center;"><i>The following events are conditional upon the fulfilment of the conditions for the implementation of the Capital Reorganisation, the results of the Sanction Hearing and are expected to take place after the Scheme Effective Date, and therefore the dates are tentative only.</i></p>	
Effective date of the Capital Reorganisation	Monday, 4 July 2022
First day of free exchange of existing share certificates into new share certificates for New Shares	Monday, 4 July 2022
Dealing in New Shares commences	9:00 a.m. on Monday, 4 July 2022

EXPECTED TIMETABLE

Original counter for trading in Shares in board lot of
10,000 Shares (in the form of existing share certificates)
temporarily closes 9:00 a.m. on Monday,
4 July 2022

Temporary counter for trading in the New Shares
in temporary board lot of 500 New Shares
(in the form of existing share certificates for New Shares) opens 9:00 a.m. on Monday,
4 July 2022

Original counter for trading in the New Shares
in board lot of 10,000 of New Shares
(in the form of new share certificates) re-opens 9:00 a.m. on Monday,
18 July 2022

Parallel trading in the New Shares (in the form of existing share
certificates and new share certificates) commences 9:00 a.m. on Monday,
18 July 2022

Designated broker starts to stand in the market to provide matching
services for sale and purchase of odd lots of New Shares 9:00 a.m. on Monday,
18 July 2022

Designated broker ceases to stand in the market to provide
matching services for odd lots of the New Shares 4:00 p.m. on Friday,
5 August 2022

Temporary counter for trading in New Shares in temporary board lot
of 500 New Shares (in the form of existing share certificates) closes . . . 4:10 p.m. on Friday,
5 August 2022

Parallel trading in the New Shares (in the form of new share
certificates for New Shares and existing share certificates) ends 4:10 p.m. on Friday,
5 August 2022

Last day for free exchange of existing share certificates into
new share certificates for New Shares Tuesday, 9 August 2022

LETTER FROM THE BOARD



稀鎂科技
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稀鎂科技集團控股有限公司

RARE EARTH MAGNESIUM TECHNOLOGY GROUP HOLDINGS LIMITED

(in provisional liquidation)

(for restructuring purposes only)

(Incorporated in Bermuda with limited liability)

(Stock Code: 601)

Executive Directors:

Mr. Shum Sai Chit (*Chairman*)

Ms. Chi Sile

Independent Non-executive Directors:

Mr. Kwong Ping Man,

Mr. Cheung Sound Poon

Mr. Kwan Ngai Kit

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Principal place of business
in Hong Kong:*

16th Floor, Tower 5

The Gateway

Harbour City

Tsim Sha Tsui, Kowloon

Hong Kong

3 May 2022

To the Shareholders

Dear Sir or Madam,

**PROPOSED CAPITAL REORGANISATION;
PROPOSED RESTRUCTURING INVOLVING, INTER ALIA,
CREDITORS' SCHEME;
PROPOSED ISSUE OF SCHEME SHARES AND CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE;
CONNECTED TRANSACTION IN RELATION TO PROPOSED ISSUE OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
AND
NOTICE OF SPECIAL GENERAL MEETING**

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the Announcement.

The purpose of this circular is to provide you with, among other things, details of (i) the Capital Reorganisation; (ii) the Creditors' Scheme and the transactions contemplated thereunder (including the grant of the Specific Mandate for the allotment and issue of the Scheme Shares and the Conversion Shares and the connected transaction in respect of the issue of Convertible Bonds to Ming Xin); (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Creditors' Scheme and the transactions contemplated thereunder; (iv) the advice from Gram Capital on the connected transaction in relation to the proposed issued of Convertible Bonds under the Creditors' Scheme; and (v) a notice convening the SGM.

PROPOSED CAPITAL REORGANISATION

I. Proposed Capital Reorganisation

The Board proposes to implement the Capital Reorganisation which comprises the following:

- (a) every twenty (20) issued and unissued Shares of par value HK\$0.10 each in the share capital of the Company be consolidated into one (1) Consolidated Share of par value HK\$2.00 each in the share capital of the Company;
- (b) the Capital Reduction by which: (i) any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation shall be cancelled; and (ii) the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK\$1.99 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK\$2.00 to HK\$0.01; and
- (c) immediately following the Capital Reduction, each of the authorised but unissued Consolidated Shares with par value of HK\$2.00 each be sub-divided into two hundred (200) New Shares of par value HK\$0.01 each.

Effect of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$1,300,000,000 divided into 13,000,000,000 Shares of par value HK\$0.10 each, of which 6,584,390,058 Shares have been issued and are fully paid or credited as fully paid.

LETTER FROM THE BOARD

Immediately upon the Capital Reorganisation becoming effective and assuming there is no change in the issued share capital of the Company prior to the Capital Reorganisation becoming effective, the authorised share capital of the Company shall be HK\$1,300,000,000 divided into 130,000,000,000 New Shares of par value HK\$0.01 each, of which 329,219,502 New Shares have been issued as fully paid or credited as fully paid. A credit amounting to approximately HK\$655,146,809 will arise as a result of the Capital Reduction and it is proposed that the credit arising from the Capital Reduction will be credited to the contributed surplus account of the Company, which will be utilised by the Company in such manner as the Board may deem fit and as permitted under the Bye-laws.

The share capital structure of the Company as at the Latest Practicable Date and immediately upon the effective of the Capital Reorganisation is as follows:

	As of the Latest Practicable Date	Immediately upon the Capital Reorganisation becoming effective
Par value	HK\$0.10 per Share	HK\$0.01 per New Share
Amount of authorised share capital	HK\$1,300,000,000	HK\$1,300,000,000
Number of authorised shares	13,000,000,000 Shares	130,000,000,000 New Shares
Number of issued shares	6,584,390,058 Shares	329,219,502 New Shares
Amount of the issued share capital	HK\$658,439,006	HK\$3,292,195

Other than the relevant expenses incurred, implementation of the Capital Reorganisation will have no material effect on the consolidated total asset value of the Company, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the proportionate interests or rights of the Shareholders as a whole. The Directors are of the view that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group and are in the interest of the Company and the Shareholders as a whole.

Status of the New Shares

The New Shares shall rank *pari passu* in all respects with each other.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon the following conditions:

- (a) the passing of an ordinary resolution by the Shareholders to approve the Share Consolidation at the SGM;
- (b) the passing of a special resolution by the Shareholders to approve the Capital Reduction and the Share Sub-division at the SGM;

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- (c) compliance with the procedures and requirements prescribed by section 46 of the Bermuda Companies Act in relation to the Capital Reduction;
- (d) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares upon the Capital Reorganisation becoming effective; and
- (e) the compliance with the relevant procedures and requirements under the Listing Rules to effect the Capital Reorganisation.

The Capital Reorganisation will become effective when the conditions mentioned above are fulfilled. It is currently expected that the effective date of the Capital Reorganisation will be on Monday, 4 July 2022.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

II. Board Lot Size

Upon the Capital Reorganisation becoming effective, the board lot size of the New Shares for trading on the Stock Exchange will remain unchanged at 10,000 New Shares per board lot, which is the same board lot size for trading of the Shares on the Stock Exchange.

Based on the closing price of HK\$0.031 Share as quoted on the Stock Exchange as at the Latest Practicable Date, assuming the Capital Reorganisation have becoming effective, the theoretical price of the New Share will be HK\$0.62 and the theoretical market value of each board lot of 10,000 New Shares would be HK\$6,200.

III. Reasons for the Capital Reorganisation and Change in Board Lot Size

The Shares have predominantly been trading at below HK\$0.1 over the past 6 months. Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01, the issuer may be required to proceed with a consolidation of its securities. According to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Hong Kong Exchanges and Clearing Limited, (i) market price of the securities of an issuer at a level less than HK\$0.1 will be considered as trading at extremities; and (ii) taking into account the minimum transaction costs for a securities trade, the expected board lot value should be greater than HK\$2,000.

Under the Bermuda Companies Act, a company may not issue shares at a discount to the nominal value of such shares. Immediately after completion of the Capital Reorganisation, the nominal value of the New Shares will be at a lower level of HK\$0.01 per New Share, which allows greater flexibility in the pricing for any issue of New Shares in the future. The credit in the contributed surplus account arising from the Capital Reduction may be applied in future for distribution to the Shareholders or in any manner permitted by applicable laws and the Bye-laws of the Company.

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The Directors consider that the Capital Reorganisation will bring about a corresponding upward adjustment in the trading price per New Share on the Stock Exchange.

As at the Latest Practicable Date, save for the Creditors' Scheme (including the issue of Scheme Shares and the Convertible Bonds under the Creditors' Scheme), further details are set out under section headed "The Creditors' Scheme" in this letter), the Company has no intention to carry out any fundraising activities or other corporate actions in the next 12 months which may have an effect of undermining or negating the intended purpose of the Capital Reorganisation.

The Board considers that the Capital Reorganisation is beneficial to and in the interests of the Company and the Shareholders as a whole.

IV. 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 New Shares in issue and to be issued upon the Capital Reorganisation becoming effective.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, as well as compliance with the stock admission requirements of the HKSCC, the New Shares will be as accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the New Shares to be admitted into CCASS established and operated by HKSCC.

None of the Shares are listed or dealt in on any other stock exchange other than the Stock Exchange, and at the time the Capital Reorganisation becomes effective, the New Shares in issue will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

V. Other Arrangements

(a) Fractional entitlement to New Shares

Fractional New Shares will be disregarded, cancelled and will not be issued to the Shareholders. Fractional New Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

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(b) Arrangements on odd lot trading

In order to facilitate the trading of odd lots (if any) of the New Shares, the Company has appointed a securities firm as an agent to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the New Shares to make up a full board lot, or to dispose of their holding of odd lots of the New Shares.

Shareholders who wish to take advantage of this facility should contact Ms. Carman Wong of One China Securities Limited at 2/F., Cheong K. Building, 86 Des Voeux Road Central, Central, Hong Kong (telephone number: (852) 3188 2676 and facsimile number: (852) 3188 9984) from 9:00 a.m. on Monday, 18 July 2022 to 4:00 p.m. on Friday, 5 August 2022.

Holders of odd lots of the New Shares should note that the matching of the sale and purchase of odd lots of the New Shares is not guaranteed. Shareholders who are in any doubt about the odd lots matching arrangement are recommended to consult their own professional advisers.

(c) Exchange of share certificates for the New Shares

Subject to the Capital Reorganisation becoming effective, which is currently expected to be on Monday, 4 July 2022, Shareholders may between 9:00 a.m. and 4:30 p.m. on any Business Day during the period from Monday, 4 July 2022 to Tuesday, 9 August 2022 (both days inclusive), submit share certificates for the existing Shares (in pink colour) to the Registrar at Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong to exchange for new share certificates for the New Shares (in green colour) at the expense of the Company.

Shareholders should note that after the prescribed time for free exchange of share certificates, a fee of HK\$2.50 each (or such higher amount as may from time to time be allowed by the Stock Exchange) will be payable by the Shareholders to the registrar for each share certificate for the existing Shares submitted for cancellation or each new share certificate issued for the New Shares, whichever the number of share certificates involved is higher.

After 4:10 p.m. on Thursday, 30 June 2022, trading will only be in New Shares which share certificates will be issued in green colour. Existing share certificates in pink colour for the existing Shares will cease to be valid for trading and settlement purpose, but will remain valid and effective as documents of title.

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VI. Adjustments to outstanding Options

As at the Latest Practicable Date, there are outstanding 140,000,000 Options and 208,400,000 Options at the respective exercise price of HK\$0.3 and HK\$0.4 each were granted under the Share Option Scheme to subscribe for a total of 348,400,000 Shares.

The adjustments in relation to the outstanding Options to be made upon the Capital Reorganisation becoming effective would be as follows:

Grantees	No. of Shares to be issued under the outstanding Options as at the Latest Practicable Date	Exercise price per Share (HK\$)	No. of New Shares to be issued upon exercise of the Options upon the Capital Reorganisation becoming effective	Exercise price per New Share (HK\$)
Directors				
Shum Sai Chit	30,000,000	0.4	1,500,000	8.0
Kwong Ping Man	5,000,000	0.4	250,000	8.0
Cheung Sound Poon	5,000,000	0.4	250,000	8.0
Kwan Ngai Kit	<u>5,000,000</u>	0.4	<u>250,000</u>	8.0
Sub-total	<u>45,000,000</u>		<u>2,250,000</u>	
Employees				
	140,000,000	0.3	7,000,000	6.0
	<u>163,400,000</u>	0.4	<u>8,170,000</u>	8.0
Sub-total	<u>303,400,000</u>		<u>15,170,000</u>	
Total	<u><u>348,400,000</u></u>		<u><u>17,420,000</u></u>	

The Company will engage an independent financial adviser or the auditors of the Company to certify the adjustments to the outstanding share options of the Company and the Company will make further announcement(s) as and when appropriate in this regard.

Save as aforesaid, the Company does not have any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into, any Shares, Consolidated Shares or New Shares, as at the Latest Practicable Date.

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As the Capital Reorganisation is subject to the satisfaction of conditions, the Capital Reorganisation may or may not become effective. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

THE CREDITORS' SCHEME

The Creditors' Scheme comprises (i) the Term Extension Option; (ii) the Convertible Bonds Swap Option; and (iii) a combination of the aforementioned two options. Each Scheme Creditor with Admitted Claims is entitled, to the extent of the total value of his/her/its Admitted Claim(s), to elect between options (i), (ii) and (iii) above.

(i) Term Extension Option

All existing contractual terms in the Debt Instrument between the Company and each Term Extension Option Creditor in the relevant Debt Instrument shall be fully released and discharged and be replaced by the terms of the Creditors' Scheme, in particular:

- (a) the repayment date under the Debt Instrument shall be extended for a period of five (5) calendar years beginning on the Scheme Effective Date (i.e. the "**Extended Term**");
- (b) the issue of Scheme Shares under the Term Extension Shares Placement as interest payment;
- (c) the Term Extension Option Creditors' Admitted Claims will be settled in full by the Interim Payment(s) and/or the Final Payment and/or the Early Repayment and/or the Century Sunshine Proposed Scheme Potential Repayment.

The Extended Term of five years were determined with reference to the current business and financial position of the Group, the expected improvement in the financial and liquidity position of the Company after the effective of the Creditors' Scheme, the expected economic recovery and growth after COVID-19 pandemic in both Hong Kong and the PRC and its benefits to the Group's magnesium business, and the creditors' acceptance to the terms of the Creditors' Scheme.

Issue of Scheme Shares under Term Extension Share Placement

Under the Term Extension Option, the Company will implement the Term Extension Share Placement, pursuant to which the Company will allot and issue 65,843,900 New Shares to the Scheme Company (equivalent to 1,316,878,010 Shares or 20% of the issued share capital of the Company as at the Latest Practicable Date after adjustment due to the Capital Reorganisation and assuming the Capital Reorganisation becoming effective and that there will be no change to the share capital of the Company from the Latest Practicable Date to the date of the allotment and issue of the Scheme Shares other than the proposed

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Capital Reorganisation) within twenty-one (21) Business Days after the completion of Capital Reorganisation or the Scheme Effective Date, whichever is later. Further details of the issue of the Scheme Shares to the Scheme Company are set out in the section headed “Issue of Scheme Shares and Convertible Bonds under Specific Mandate” below.

The issue of the Scheme Shares by the Company forms part of the consideration to discharge the outstanding liabilities under the Creditors’ Scheme.

Interim Payments, Final Payment and Early Repayment

Interim Payment(s)

Interim Payment shall be payable to the Term Extension Option Creditors in accordance with the interim payment mechanism (“**Interim Payment Mechanism**”), pursuant to which 50% of the Annual Net Profit (as defined below) for a given financial year during the Extended Term shall be distributable to Term Extension Option Creditors on a *pro rata* basis if the Company records an Annual Net Profit for the said financial year.

The annual net profit (“**Annual Net Profit**”) will be determined based on the consolidated net profit of the Group recorded in the Company’s audited annual consolidated financial statement of any given financial year during the Extended Term but shall exclude any impairment losses / reversal of impairment losses on assets and any gain or loss arising from any initial and/or subsequent accounting adjustments made to effect and implement the Scheme, including:

- (a) any impairment losses/ reversal of impairment losses on assets recognised for any financial year;
- (b) any gains arising from the discharging and extinguishing of the Claims of the Scheme Creditors pursuant to the Scheme;
- (c) any gain or loss arising from the issuance of Shares pursuant to the Term Extension Share Placement and any relevant subsequent adjustments; and
- (d) any gain or loss arising from the issuance and subsequent adjustments of the Convertible Bonds.

Any adjustment(s) made on the consolidated net profit of the Group recorded in the Company’s audited annual consolidated financial statements for the Interim Payment’s purpose should be proved by the Company to the satisfaction of the Scheme Administrators within seven (7) Business Days from the date of publication of the relevant audited annual consolidated financial statements on the website of the Stock Exchange.

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If Interim Payment is payable (i.e. only when the Company has Annual Net Profit) in respect of a certain financial year pursuant to the Interim Payment Mechanism, the Scheme Administrators will provide a written notice to the Company specifying the payable amount of the Interim Payment. The Company will within seven (7) Business Days upon receipt of such written notice from the Scheme Administrators transfer an amount equal to the Interim Payment(s) as determined by the Scheme Administrators to the Scheme Company. The Scheme Administrators will then distribute the Interim Payment to Term Extension Option Creditors with unsettled Admitted Claim(s) on a pro rata basis as soon as practicable after receiving such payment(s) from the Company.

Final Payment

The Final Payment, being an amount equal to the aggregate outstanding balance of Admitted Claims of Term Extension Option Creditors (after deducting the Interim Payment(s) and/or Early Repayment(s) and/or the Century Sunshine Proposed Scheme Potential Repayment received by the Term Extension Option Creditors), will be transferred by the Company to the Scheme Company within fourteen (14) Business Days from the 5th anniversary of the Scheme Effective Date for distribution to Term Extension Option Creditors. For the avoidance of doubt, if there is any relevant payment received by Term Extension Option Creditors according to the Century Sunshine Potential Guarantee, the Baishan Pledges and/or the Baishan Guarantee, the same amount received by Term Extension Option Creditors will be deducted from the Final Payment.

Early Repayment

At any time during the Extended Term from the Scheme Effective Date, the Company shall have the right, without requiring the consent of the Term Extension Option Creditors, to repay the outstanding balance of the Admitted Claims of Term Extension Option Creditors, in full or in part on a *pro rata* basis, and in connection with such voluntary cash repayment of the Admitted Claims, no interest or charges shall be further incurred by the Company upon the repayment in connection with the amount of Admitted Claims paid. In the event that the Company declares an Early Repayment, the Company shall provide written notice of its intention to make such Early Repayment to the Scheme Administrators not less than five (5) Business Days and transfer the Early Repayment to the Scheme Company for distribution to Term Extension Option Creditors with unsettled Admitted Claims.

The Company intends to finance the payment of the Interim Payment(s), Final Payment and Early Repayment by the internally generated cash flows of the Group during the Extended Term. Despite the loss making position of the Company (i.e. net losses of approximately HK\$74 million and HK\$331 million for the two years ended 31 December 2020 and 2021) in the last two financial years and the fact that the Group's business has been negatively affected by the COVID-19 pandemic as well as the liquidity constraints faced by the Company as the Company has been placed in provisional liquidation for debt restructuring since July 2020, the Group is a reputable supplier of magnesium alloys in the

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PRC for over a decade and the Group's magnesium business is sustainable and enjoyed substantial growth in the past. As disclosed in the annual reports of the Company for the two years ended 31 December 2021, the Group enjoyed considerable growth in revenue during the pre-Covid-19 period. For the three years ended 31 December 2017, 2018 and 2019, the Group reported revenue of approximately HK\$1,158 million, HK\$1,538 million and HK\$1,515 million respectively and net profit of approximately HK\$184 million, HK\$286 million and HK\$210 million respectively. In addition, notwithstanding the Group's loss making position in the last two financial years, the Group continued to generate positive operating cashflows of approximately HK\$195 million, HK\$319 million, HK\$290 million, HK\$30 million, HK\$107 million respectively in the past five financial years ended 31 December 2021 to maintain and /or grow its operations. Having considered (i) the demand of the Group's magnesium products will rebound with the recovery from the COVID-19 situation in the PRC; and (ii) the improvement in capacity utilisation as a result of better working capital position of the Group after the effective the Creditors' Scheme, the Directors are of the view the Group will have sufficient internal financial resources to settle the cash payable to the Term Extension Option Creditors under the Term Extension Option during the Extended Term.

Financial assistance from the Century Sunshine Group and Baishan Tianan

The following financial assistance will be provided to the Company in favour of the Scheme Company by members of the Century Sunshine Group and Baishan Tianan in order to secure the Company's payment obligations of the Term Extension Option Creditors' Admitted Claims under the Creditors' Scheme.

Century Sunshine Proposed Scheme Potential Repayment

As disclosed in the announcement of Century Sunshine dated 18 January 2022, in relation to, among others, an update on the debt restructuring of Century Sunshine, Century Sunshine and the BVI Entities are taking proactive steps to formulate a holistic restructuring plan to be implemented through the Century Sunshine Proposed Scheme, which pursuant to the heads of terms of the Century Sunshine Proposed Scheme presented to the combined creditors' committee of Century Sunshine and the BVI Entities, will include three assets in the Century Sunshine Proposed Scheme, including (i) firstly, 20% of the issued share capital of the Company held by Ming Xin; (ii) secondly, the entitlement to receive net sale proceeds (after deduction of all relevant tax, costs and expenses incidental to remittance) from the sale of land in Zhangzhou PRC owned by Century Sunshine (Zhangzhou) Ecological Technology Ltd, a wholly-owned subsidiary of Century Sunshine; and (iii) thirdly, the entitlement to the dividend payments (after deduction of all relevant tax, costs and expenses incidental to remittance) receivable by Acronagrotrans Ltd. (an immediate holding company of Shandong Hongri) from Shandong Hongri after the

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realisation of the Shandong Lands. Subject to the sanctioning of the Century Sunshine Proposed Scheme by the relevant courts, the abovementioned assets will be transferred to the Century Sunshine Scheme Company.

For the purpose of the Creditors' Scheme, in the event that (1) the debts as adjudicated and admitted under the Century Sunshine Proposed Scheme are fully repaid with all the relevant costs and expenses under Century Sunshine Proposed Scheme are settled; and (2) the assets under the Century Sunshine Proposed Scheme have not been fully utilised and exhausted for the purpose of the Century Sunshine Proposed Scheme, Century Sunshine and the BVI Entities undertake to remit and procure to remit any remaining balance of the assets under the Century Sunshine Proposed Scheme to the Scheme Company, to be wholly applied to the repayment of the unsettled Admitted Claims of Term Extension Option Creditors on a *pro rata* basis. Such amount, if any, will be accounted for as a non-interest bearing shareholder's loan from Century Sunshine to the Company.

The Century Sunshine Potential Guarantee

Century Sunshine, as the ultimate parent company of the Company, shall provide and execute a corporate guarantee on or around the Scheme Effective Date in favour of the Scheme Company to guarantee the Company's punctual payment of the Interim Payment(s) (if payable) and the Final Payment on terms agreeable to the Scheme Administrators. The Century Sunshine Potential Guarantee is only enforceable upon the full and final settlement of all liabilities owed to the creditors under the Century Sunshine Proposed Scheme.

For the avoidance of doubt, whether or not the liabilities under the Century Sunshine Proposed Scheme have been fully settled and discharged is to be determined by the scheme administrators of the said Century Sunshine Proposed Scheme.

The Company will enter into agreements with Century Sunshine for the Century Sunshine Proposed Scheme Potential Repayment and the Century Sunshine Potential Guarantee. It is uncertain when such agreements will be finalised as at the Latest Practicable Date and the timing of which is subject to the progress of Century Sunshine Proposed Scheme and will be determined by the scheme administrators of the said Century Sunshine Proposed Scheme. Further announcement(s) will be made by the Company in this regard as and when appropriate.

The BVI Entities are wholly owned subsidiaries of Century Sunshine, a controlling Shareholder interested in approximately 72.31% of the Company as at the Latest Practicable Date. As such, both Century Sunshine and the BVI Entities are connected persons of the Company under Chapter 14A of the Listing Rules. As both the Century Sunshine Proposed Scheme Potential Repayment and the Century Sunshine Potential Guarantee are conducted on normal commercial terms or better and they are not secured by the assets of the Group, the Century Sunshine Proposed Scheme Potential Repayment and the Century Sunshine Potential Guarantee are fully exempt under Rule 14A.90 of the Listing Rules.

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The Baishan Pledges and the Baishan Guarantee

Sure Sino Global Limited and Fullocean Group Limited, both of which are wholly-owned subsidiaries of the Company, shall enter into share pledge agreement(s) in favour of the Scheme Company (the terms of which shall be agreeable to the Scheme Administrators) on or around the Scheme Effective Date in respect of their 100% shareholdings in China Rare Earth Magnesium Technology Holdings Limited, which is in turn the sole shareholder of Baishan Tianan.

China Rare Earth Magnesium Technology Holdings Limited shall also enter into share pledge agreement(s) (the terms of which shall be agreeable to the Scheme Administrators) on or around the Scheme Effective Date in respect of its 100% shareholdings in Baishan Tianan, in favour of the Scheme Company.

In the event that the Final Payment cannot be made pursuant to the Creditors' Scheme, or the Final Payment, if made, is unable to satisfy the outstanding Admitted Claims of the Term Extension Option Creditors, the Scheme Company shall be entitled to enforce the terms of the Baishan Pledges and subsequently take enforcement actions against the Baishan Mine in accordance with the terms of such Baishan Pledges.

The Company shall undertake to use all reasonable endeavors to procure the execution and formalisation of the Baishan Pledges. For the avoidance of doubt, the effectiveness of the Creditors' Scheme is not conditional upon the formalisation (i.e. inability to obtain the requisite governmental approvals or comply with the any legal and registration requirements) of the Baishan Pledges, nor is the failure to formalise the Baishan Pledges by reason of inability to obtain requisite governmental approvals or inability to comply with any legal and/or registration requirements for reasons not attributable to the Company or Baishan Tianan or any of the proposed pledgors an event that would lead to the termination of the Creditors' Scheme. In the event of such failure, the Scheme Creditors shall have no recourse against the Company and/or Baishan Tianan and/or any of the proposed pledgors.

Baishan Tianan shall simultaneously enter into the written Baishan Guarantee on or around the Scheme Effective Date in favour of the Scheme Company (the terms of which shall be agreeable to the Scheme Administrators) for guaranteeing the Company's punctual payment of the Interim Payment (if payable) and the Final Payment on terms agreeable to the Scheme Administrators. The Baishan Guarantee shall also guarantee that Baishan Tianan shall not dispose, transfer or pledge the Baishan Mine during the Extended Term (except for the purpose of making payment to the Scheme Company). Should the Baishan Mine fail to generate any revenue, according to the audited financial statements of Baishan Tianan, after the lapse of two (2) Scheme Years, Baishan Tianan shall dispose of the Baishan Mine and the resultant proceeds, after deduction of relevant costs and expenses, shall be wholly applied to the satisfaction of outstanding Admitted Claims of Term Extension Option Creditors.

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Information of Baishan Mine

Baishan Tianan operates magnesium production facilities in Jilin Province, the PRC and it holds the Baishan Mine, an exploration right to a dolomite mine in Baishan City, Jilin Province in the PRC for a period from November 2010 to November 2030. Baishan Mine is an open pit dolomite mine that supplies the raw materials for the Baishan Tianan's production activities. For the two years ended 31 December 2018 and 31 December 2019, Baishan Mine completed dolomite output of 145,290 tonnes and 109,601 tonnes, representing approximately 20% and 27% of the Group's total consumption of dolomite for the respective years. Since early 2020, Baishan Mine had temporarily ceased its mining activities in light of the reduced production capacity of the Group due to the impact of COVID-19 pandemic. Subject to the COVID-19 situation in the PRC, the Group currently plans to resume the mining activities of Baishan Mine in late 2022 or early 2023. Baishan Mine did not generate external revenue for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 as all the output from Baishan Mine in 2019 was consumed by the Group and Baishan Mine ceased operation in 2020 and 2021. For the year ended 31 December 2018, the amount of external revenue contributed by Baishan Mine was HK\$1.6 million, representing approximately 0.1% of the total revenue of the Group for that year and the book value of Baishan Mine as at 31 December 2021 amounted to HK\$48.8 million, representing approximately 1.9% of the total assets of the Group.

Given the exploration right of Baishan Mine is up to November 2030 and Baishan Mine will resume mining activities in late 2022 or early 2023, the Board is of the view that Baishan Mine will generate revenue from sale of ore to third parties and for intergroup use in the first two Scheme Years. In addition, since the size and operations of Baishan Mine are not material to the Group and the Group does not rely heavily on the output of Baishan Mine for Group's production operations, the Board considers that the potential disposal of Baishan Mine will not have material adverse impact on the Group's magnesium operations as the Group.

The provision of the Baishan Pledges and the Baishan Guarantee under the Creditors' Scheme was agreed after arms length negotiation among the Company, the Joint Provisional Liquidators and the Scheme Creditors in consideration of the business and financial position of the Company on standalone basis (i.e. the Company is an investment holding company and the key asset of the Company is the investments in the Group's magnesium operations in the PRC) and to provide additional assurance and security on the Company's payment obligations to the Scheme Creditors during the Extended Term under the Term Extension Option.

In light of the above, the Board is of the view that the entering into of the Baishan Pledge, the Baishan Guarantee and the possible disposal of Baishan Mine are in the interest of the Company and Shareholders as a whole.

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As set out in the section headed “Connected Transaction in relation to the Issue of Convertible Bonds to Ming Xin” below in this letter, Ming Xin gave an undertaking to the Company to elect for the Convertible Bond Swap Option in respect of the entirety of its Claims. As such, Ming Xin shall be a Convertible Bonds Swap Option Creditor at the time of the Baishan Pledge and Baishan Guarantee becoming effective and the Company is of the view that, the entering into of Baishan Pledge and the Baishan Guarantee, which would confer benefits to the Term Extension Option Creditors only, will not constitute connected transaction of the Company under the Listing Rules.

The potential disposal of Baishan Mine, if materialises, will be made conditional on the compliance with applicable rules and regulations. Should the potential disposal of Baishan Mine materialise after the lapse of two (2) Scheme Years and constitute a notifiable and /or connected transaction on the part of the Company under the Listing Rules, the Company will comply with the relevant requirements under the Listing Rules as and when appropriate.

For the avoidance of doubt, (i) the effectiveness of the Creditors’ Scheme is not conditional upon the formalisation (i.e. inability to obtain the requisition governmental approvals or comply with any lease and registration required) of each of (a) the arrangement of the Century Sunshine Proposed Scheme Potential Repayment; (b) the Century Sunshine Potential Guarantee; (c) the Baishan Pledge; (d) the Baishan Guarantee; and (ii) if there is any relevant payment(s) received by Term Extension Option Creditors according to the Century Sunshine Potential Guarantee, the Baishan Pledges and/or the Baishan Guarantee, the same amount received by Term Extension Option Creditors will be deducted from the Final Payment.

Baishan Claims

As disclosed in the interim report of the Company for the six months ended 30 June 2021 and the annual report of the Company for the year ended 31 December 2021, on 2 June 2021, Baishan Tianan, received a writ of summons (“**Writ**”) issued by account in the PRC, in which a bank in the PRC (the “**PRC Bank**”) through claims Baishan Tianan for its non-compliance to the terms and conditions of a loan granted by the PRC Bank. According to the statement of claim indorsed with the Writ, the PRC Bank claims against Baishan Tianan for an immediate repayment of all outstanding principal and interest, in the sum of approximately RMB64,266,667, as well as the default interest thereon, further or other relief and related costs (the “**Baishan Claims**”).

On 16 March 2022, Baishan Tianan received a notice for enforcement (執行通知書) dated 11 March 2022 from Jilin Province Baishan City Intermediate People’s Court (吉林省白山市中級人民法院) regarding the freezing of 1 plots of land, 14 properties and the exploration right of the Baishan Mine (the “**Frozen Assets**”) owned by Baishan Tianan in relation to the Baishan Claims for three years up to 10 March 2025 (the “**Freezing Period**”) (the “**Freezing Order**”), pursuant to which Baishan Tianan cannot transfer or dispose of the ownership of Frozen Assets during the Frozen Period.

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Based on the advices given by the legal advisers of the Company as to the PRC Laws in respect of the legal implications of the Freezing Order on the Baishan Guarantee and Baishan Pledge, the Company was advised that (i) there is no legal obstacle for Baishan Tianan to enter into the Baishan Guarantee (which involves the possible disposal of Baishan Mine); and (ii) there is no legal obstacle for China Rare Earth Magnesium Technology Holdings Limited, the immediate holding company of Baishan Tianan to enter into the equity pledge of its entire equity interest in Baishan Tianan but there is a risk that the registration of such pledge in the PRC may not be effected. In addition, based on the advice given by the Hong Kong legal advisers of the Company in respect of the Creditors' Scheme, the Company was advised that the effectiveness of the Creditors' Scheme is not conditional on the formalisation of the Baishan Pledges.

In view of the above, as such, the Company does not expect the Freezing Order to have any impact on the effectiveness of the Creditors' Scheme, the Baishan Pledges and the Baishan Guarantee.

In addition, Baishan Tianan is in negotiation with the PRC Bank, including but not limited to the possibility of entering into a new loan agreement to resolve the alleged non-compliance issues, in order to have the Freezing Order released as soon as possible. The Company is of view that, based on the review of the business operation of Baishan Tianan and the funding available for its operations, the Freezing Order does not have material impact on the day-to-day operations of Baishan Tianan and Baishan Mine.

(ii) Convertible Bonds Swap Option

The Convertible Bonds Swap Option offers a conversion of Admitted Claims of Convertible Bonds Option Creditors into Convertible Bonds to be issued by the Company, in the same amount of their respective Admitted Claims elected for the Convertible Bonds Swap Option.

(iii) Combination of (i) and (ii)

Each Scheme Creditor could, at his/her/its own discretion, allocate any portion of his/ her/ its Admitted Claim to the Term Extension Option and/or the Convertible Bonds Swap Option, provided that the aggregated sum under the two options does not exceed 100% of his/her/its Admitted Claim.

Effect of the Creditors' Scheme

With effect from the Scheme Effective Date, save for the distribution to be made to the Scheme Creditors under the Creditors' Scheme, each of the Scheme Creditors irrevocably and unconditionally forever discharges and waives as of the Scheme Effective Date all the Claims it had, has or may hereafter have against the Company in consideration of the right to participate in the Creditors' Scheme.

LETTER FROM THE BOARD

Total Discharged Liabilities

The total liabilities of the Company (the “**Total Discharged Liabilities**”) to be accrued up to and discharged at the Scheme Effective Date (i.e. 30 June 2022 based on the current timetable) will be approximately HK\$869,348,306, representing the sum of the Estimated Total Claims and the Accrued Interests and Charges.

(i) *Estimated Total Claims*

Based on the Creditors’ Scheme, the Claims are any debt, liability or obligation of the Company which arose on or before the Joint Provisional Liquidators Appointment Date (i.e. 16 July 2020).

Up to the Joint Provisional Liquidators Appointment Date, based on the available books and records of the Company and the amount of Claims, including loan principals, accrued loan interests and other payables of services fees, reported by the Scheme Creditors up to the Latest Practicable Date, the estimated maximum total amount of Claims against the Company is approximately HK\$764,918,306 (“**Estimated Total Claims**”) (Note). This figure is indicative only and will be subject to final determination by the Scheme Administrators and (if applicable) adjudication under the Creditors’ Scheme. Set out below is the information about the categories of the Claims by the Scheme Creditors:

Categories of Claims	Principal amount (HK\$)	Weighted average interest rates (% per annum)	Maturity dates	Use of proceeds
Loans from banks and financial institutions	289,372,962	6.4%	Overdue	Capital expenditures of the Group’s production facilities in the PRC and general working capital
Other loans	28,214,183	3.4%	Overdue	General working capital
Consideration payable to Ming Xin	447,076,299	3.8%	Overdue	Acquisition of Baishan Tianan from Century Sunshine in 2017
Professional services fees	254,862	0%	Overdue	Legal and professional fees

Note: The amount of the Estimated Total Claims disclosed in the Announcement was HK\$762,741,670, which has been adjusted to HK\$764,918,306 taking into account of the difference in the amount of the Claims reported by the Scheme Creditors as well as exchange rates.

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Other than the accrued expenses, which included audit and taxation service fees as well as Directors' fees and staff salaries, in an aggregate amount of approximately HK\$963,000, all of the Company's debts as at the Joint Provisional Liquidators Date will be subject to the Creditors' Scheme. The above accrued expenses have been settled as at the Latest Practicable Date.

Other than the Claims subject to the Creditors' Scheme, the accrued expenses and payables relating to the day-to-day operations of the Company, the Company has no other debts as at the Latest Practicable Date.

(ii) Accrued Interests and Charges

Any interests or charges accrued (the "**Accrued Interests and Charges**") on the Claims after the Joint Provisional Liquidators Appointment Date and up to the date immediately before the Scheme Effective Date will be discharged and extinguished in full on the Scheme Effective Date (i.e. 30 June 2022 based on the current timetable), which amounted to HK\$104,430,000 up to 30 June 2022.

Consideration Payable by the Company under the Creditors' Scheme

The cash payment in respect of the Interim Payment, Final Payment and the Early Repayment under the Term Extension Option, the issue of the Scheme Shares to the Scheme Company under the Term Extension Share Placement and the issue of the Convertible Bonds under the Convertible Bond Swap Option will be applied for the settlement of the Scheme Costs and as full and final settlement of the Total Discharged Liabilities of approximately HK\$869,348,306 at the Scheme Effective Date (i.e. 30 June 2022 based on the current timetable).

For clarity purpose, the aggregate principal amounts of the Term Extension Option and the Convertible Bonds Swap Option will be equal to the Admitted Claims of the Scheme Creditors, which approximates the amount of the Estimated Total Claims of HK\$764,918,306 based on the available books and record of the Company.

Additional information on the implementation of the Creditors' Scheme

As disclosed in the announcement of the Company dated 1 March 2022, the Creditors' Scheme was approved by the requisite statutory majorities of the Scheme Creditors at the Adjourned Scheme Meeting held on the same day. The Hong Kong Court will consider the sanctioning of the Creditors' Scheme at the Sanction Hearing. After the sanction of the Hong Kong Court has been obtained, the Sanction Order will be filed with the Companies Registry in Hong Kong for registration, and the Creditors' Scheme will, after the fulfilment of the conditions precedent as listed below, become effective. The Sanction Hearing has been fixed on Friday, 27 May 2022.

LETTER FROM THE BOARD

The Scheme Administrator will then determine the cut-off date (“**Cut-Off Date**”), being the latest time and date for filing all notices of claims from the Scheme Creditors to the Company and inform the Scheme Creditors of the final amount of their claims. The Cut-Off Date will be fixed after the Scheme Effective Date by the Scheme Administrators.

All Scheme Creditors must indicate their preference for the manner of the restructuring of their Admitted Claims (i.e., by the Term Extension Option or the Convertible Bonds Swap Option or a combination of both) by the Preference Indication Date. For the avoidance of doubt, the aggregated sum under the Term Extension Option and Convertible Bond Swap Option cannot exceed 100% of a Scheme Creditor’s Admitted Claim. Failure to indicate their preference of all or part of the Admitted Claims will result in the Scheme Creditor being deemed to have elected to allocate the entirety or the unspecified portion of his/her/its Admitted Claim to the Convertible Bonds Swap Option.

The Company will not issue the Scheme Shares to the Scheme Company if none of the Scheme Creditors elects for the Term Extension Option. The Scheme Shares, if issue, will be held by the Scheme Company on behalf of the Term Extension Option Creditors according to the terms of the Creditor’s Scheme.

Under the Convertible Bonds Swap Option, subject to the Creditors’ Scheme becoming effective and based on the amount of the Admitted Claims of the Convertible Bonds Option Creditors, the Company will issue the Convertible Bonds in the names of the Convertible Bonds Option Creditors within twenty-one (21) Business Days of the Preference Indication Date (a date to be fixed by the Scheme Administrators after the Scheme Effective Date) or the completion date of the Capital Reorganisation, whichever is later.

In the event that the final amounts of Admitted Claims of the Convertible Bonds Option Creditors require the Company to issue more Convertible Bonds than the currently proposed issue of Convertible Bonds under Specific Mandate, the Company intends to issue additional Convertible Bonds complying with all applicable rules and regulations (including but not limited to convening general meeting to seek approvals from Shareholders whenever necessary and applying for listing on the Stock Exchange).

Having said the above, the Company estimates that the chance of this should be minimal as the Company has all along maintained proper books and records and does not expect any valid material claim from unrecorded or off book liabilities. Further, the Company will make timely announcements to notify the Shareholders and potential investors the progress of the Creditors’ Scheme.

Details of the issue of the Scheme Shares and the Convertible Bonds are set out in the section headed “Issue of Scheme Shares and Convertible Bonds under Specific Mandate” below.

LETTER FROM THE BOARD

Conditions Precedent

The Creditors' Scheme will become binding and effective on the Company and the Scheme Creditors upon the fulfilment or satisfaction of the following conditions:-

- (i) Scheme Creditors representing over fifty per cent. (50%) in number of the Scheme Creditors and at least seventy-five per cent. (75%) in value of the Scheme Creditors, present and voting in person or by proxy at the Scheme Meeting, vote in favour of the Creditors' Scheme;
- (ii) the Hong Kong Court sanctions the Creditors' Scheme and an official copy of the order of the Hong Kong Court sanctioning the Creditors' Scheme is delivered to the Registrar of Companies in Hong Kong for registration;
- (iii) the passing of the necessary resolution(s) by the Shareholders and/or Independent Shareholders (as the case may be) at the SGM to approve, among other things, the Creditors' Scheme and the transactions contemplated thereunder, the Share Consolidation, Capital Reduction and Share Sub-division (if applicable);
- (iv) the obtaining of orders from the Hong Kong Court for the Hong Kong Petition to be withdrawn or dismissed; and
- (v) the settlement in full of all Restructuring Costs.

All the conditions precedents to the Creditors' Scheme are not capable of being waived.

Upon the above conditions precedent being fulfilled or satisfied and the Creditors' Scheme taking effect, the Company will seek order(s) from the Bermuda Court for the Bermuda Petition to be withdrawn or dismissed, the order for the appointment of the Joint Provisional Liquidators to be discharged and the Joint Provisional Liquidators be unconditionally released as provisional liquidators of the Company.

The Company may, upon seeking the advice of Bermuda counsel, make an application to seek to have the Creditors' Scheme recognised in Bermuda if necessary.

As at the Latest Practicable Date, other than Condition (i), none of the Conditions has been fulfilled.

Based on the current timetable of the Creditors' Scheme, it is expected that the conditions referred to in paragraphs (ii) to (v) could be fulfilled on or before the end of June 2022. In respect of conditions (ii) and (iv), the Sanction Hearing as well as the hearing of the Hong Kong Petition will be held together on 27 May 2022. In relation to condition (iii), the SGM will be held on 25 May 2022. In respect of condition (v), the Company will settle the Restructuring Costs in full as soon as possible after the Sanction Hearing.

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If the Company fails to obtain the Sanction Order at the Sanction Hearing and/or the approval of the relevant resolutions by the Shareholders or Independent Shareholders (as the case may be) at the SGM, the Creditors' Scheme will not take effect and lapse accordingly.

If the requisite approvals are not obtained or if the requisite approvals are obtained but the other conditions precedent to the Scheme are not fulfilled or waived (as the case may be), the Scheme will not take effect and will lapse. There is no long stop date for the above conditions precedent to be fulfilled.

Consent fee

Subject to the Creditors' Scheme becoming effective, a Consent Fee will be paid by the Company to the Consenting Creditors within 30 Business Days after the Scheme Effective Date.

Subject to the terms of the Consenting Agreement, each Consenting Creditor will be entitled to a one-off payment of the Consent Fee, being cash consideration in an amount equivalent to 3% of the principal amount of the debt owed by the Company to him/her/it excluding any interest accrued or to be accrued. In return, the Consenting Creditors were required to support and facilitate the implementation of the Proposed Restructuring pursuant to the terms of the Consenting Agreement, including voting in favour of the Creditors' Scheme by attending the Scheme Meeting in person or by proxy.

The Consent Fee is a one-off payment to each of the Consenting Creditors in addition to their Scheme Consideration Entitlement.

There are three (3) Consenting Creditors, who are Independent Third Parties, and the aggregate principal amount of the debt (excluding any interest accrued or to be accrued) owed by the Company to them calculated based on the available books and records of the Company up to the Joint Provisional Liquidators Appointment Date is estimated to be approximately HK\$33,927,000 and 3% of which (i.e. the Consent Fee) amounted to approximately HK\$1,018,000.

Completion of the proposed Creditors' Scheme is subject to the fulfilment of the conditions under the Creditors' Scheme. Accordingly, the proposed Creditors' Scheme may or may not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares.

LETTER FROM THE BOARD

ISSUE OF SCHEME SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

I. Scheme Shares

Subject to the Creditors' Scheme becoming effective and there being at least one Scheme Creditor electing for the Term Extension Option, the Company will implement the Term Extension Share Placement to allot and issue, 65,843,900 New Shares (equivalent to 1,316,878,010 Shares or 20% of the issued share capital of the Company as at the Latest Practicable Date after adjustment due to the Capital Reorganisation and assuming there will be no change to the share capital of the Company from the Latest Practicable Date to the date of allotment and issue of the Scheme Shares other than the proposed Capital Reorganisation) to the Scheme Company, who holds the Scheme Shares on behalf of the Term Extension Option Creditors pursuant to the terms of the Creditors' Scheme. The Scheme Company will hold the Scheme Shares on behalf of the Term Extension Option Creditors and will dispose of the Scheme Share and transfer the proceeds from such disposal to the Term Extension Option Creditors according to the terms agreed/approved by the Term Extension Option Creditors and subject to sanction by the Hong Kong Court.

The value of the Scheme Shares at the Issue Price of HK\$1.2 per New Share amounted to HK\$79,012,680.

For the avoidance of doubt, with reference to the Announcement and the subsequent proposed modifications to the Scheme Document, the original terms limiting the Term Extension Interest of which it shall not exceed 5% per annum is removed, such that the potential Term Extension Repayment of the Admitted Claims of Term Extension Option Creditors to be paid out from the disposal proceeds of the Scheme Shares after settlement of the Term Extension Interest are no longer in effect. Subject to the approval of the Court, the proposed modifications to the Scheme Document shall be binding on the Company and the Scheme Creditors.

The Scheme Shares will be transferred to or deposited into a securities account held by the Scheme Company within twenty-one (21) Business Days after the completion of Capital Reorganisation or the Scheme Effective Date, whichever is later.

The issue of the Scheme Shares by the Company forms part of the consideration to discharge the outstanding liabilities of the Company under the Creditors' Scheme.

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The principal terms of the issue and allotment of Scheme Shares are as follows:

Issuer: The Company

Issue Price: The Issue Price of the Scheme Shares is HK\$1.20 per New Share:

- (i) equals to the theoretical average closing price of HK\$1.20 per New Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of Capital Reorganisation;
- (ii) represents a premium of approximately 1.69% over the theoretical closing price of HK\$1.18 per New Share as quoted on the Stock Exchange for the last five consecutive trading days including and up to the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iii) represents a premium of approximately 93.55% over the closing price of HK\$0.62 per New Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation;
- (iv) represents a discount of approximately 66.76% to unaudited net asset value per New Share of approximately HK\$3.61 per New Share (after taking into account the effect of the Capital Reorganisation and based on the audited consolidated net asset value of the Company as at 31 December 2021 of approximately HK\$1,188,942,000 and 329,219,502 issued New Shares after the Capital Reorganisation has become effective); and
- (v) represents a discount of approximately 72.35% to the unaudited net asset value per New Share of approximately HK\$4.34 per New Share (after taking into account the effect of the Capital Reorganisation and based on the unaudited consolidated net asset value of the Company as at 30 June 2021 of approximately HK\$1,429,352,000 and 329,219,502 issued New Shares after the Capital Reorganisation has become effective).

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- Number of Scheme Shares: 65,843,900 New Shares, representing respectively,
- (i) approximately 20% of the issued share capital of the Company (taking into account the Capital Reorganisation); and
 - (ii) approximately 16.6% of the issued share capital of the Company (taking into account the Capital Reorganisation) as enlarged by the issuing and allotment of the Scheme Shares.

The number of the Scheme Shares was determined by the Company and the Joint Provisional Liquidators with reference to the amount of the estimated Scheme Costs, the amount of the Estimated Total Claims, the prevailing market prices of the Shares and the dilution effect that the Term Extension Share Placement may have on the existing Shareholders.

- Ranking: The Scheme Shares will rank *pari passu* in all respects with the New Shares the in issue as at the date of the issue of the Scheme Shares.

- Voting rights: The Scheme Shares will be held by the Scheme Company on behalf of the Term Extension Option Creditors. The entitlement of the number of the Scheme Shares of each Term Extension Option Creditor will be calculated based on his/her/its Admitted Claims on pro rata basis.

Each of the Term Extension Option Creditors is entitled to exercise the voting power in respect of his/her/its holdings of the Scheme Shares at any general meetings of the Company. The Scheme Company will seek for the voting instructions from the Term Extension Option Creditors on any known general meeting(s) of the Company and the Scheme Company can only vote on behalf of the Term Extension Option Creditors in accordance with their instructions at the general meeting(s) of the Company. The Scheme Company itself will not be entitled to vote at the general meeting(s) of the Company.

- Listing: Application will be made for the listing of Scheme Shares on the Stock Exchange. The Scheme Shares will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

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

The Specific Mandate for the issue of the Scheme Shares will last for a period up to 25 August 2022 (i.e. three (3) months from the date of the SGM) (the “**Shares Mandate Period**”). The Company will issue the Scheme Shares during the Share Mandate Period. In the event that the Company requires to issue part or all of the Scheme Shares after the Share Mandate Period expires, the Company intends to issue such Scheme Shares complying with all applicable rules and regulations (including but not limited to convening general meeting to seek approvals from Shareholders whenever necessary and applying for listing on the Stock Exchange).

Restriction: The issuance of the Scheme Shares under the Term Extension Share Placement shall not result in the public float of the Shares falling below the minimum public float requirements under the Listing Rules.

Based on the latest information currently available to the Company, the public float requirement under the Listing Rules can be met after the issue of the Scheme Shares.

II. Convertible Bonds

Subject to the Creditors’ Scheme becoming effective and based on the allocated amount of the Admitted Claims of the Convertible Bonds Option Creditors to the Convertible Bond Swap Option, the Company will issue the Convertible Bonds in the names of the Convertible Bonds Option Creditors within twenty-one (21) Business Days of the Preference Indication Date (a date to be fixed by the Scheme Administrators after the Scheme Effective Date) or the completion date of the Capital Reorganisation, whichever is later, for distribution to Convertible Bonds Option Creditors. Based on the amount of the Estimated Total Claims up to the Joint Provisional Liquidators Appointment Date, the Company estimated that the Company may issue the Convertible Bonds in the maximum aggregate principal amount of approximately HK\$764,918,306, which may be converted into 637,431,921 Conversion Shares, representing 193.6% of the issued share capital of Company as at the Latest Practicable Date (taking into account the effect of the Capital Reorganisation) and 65.96 % of the of the issued share capital of Company (taking into account the effect of the Capital Reorganisation) as enlarged by full conversion of the maximum amount of Convertible Bonds based on the initial Conversion Price of HK\$1.20 per Conversion Share. The principal amount of the Convertible Bonds of HK\$764,918,306 indicative only and will be subject to (i) final determination by the Scheme

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Administrators and (if applicable) adjudication under the Creditors' Scheme and (ii) the amount of the Admitted Claims allocated by the Scheme Creditors to the Convertible Bonds Swap Option.

The principal terms of the Convertible Bonds are as follows:

Issuer:	The Company
Maturity date:	The fifth anniversary of the Scheme Effective Date
Interest rate:	Nil (zero coupon)
Conversion rights and conversion price:	Conversion Shares shall be allotted and issued by the Company, credited as fully paid, with effect from the date on which conversion rights are validly exercised by the Bondholder, and the Bondholders shall be entitled to all dividends and other distributions, rights and entitlements on the record date which falls after the conversion date. The Conversion Shares will be rounded down to the nearest whole number, if required.

Subject to public float and Takeovers Code related restrictions and the special restrictions as set out further below, the whole (or any part thereof) of the principal amount of the Convertible Bonds are convertible into the Conversion Shares at the option of the Bondholders at any time during the conversion period.

The conversion price will initially be HK\$1.20 per Conversion Share, subject to adjustment provisions which are common for convertible securities of similar type including certain changes in the share capital of the Company including consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, rights issues of Shares or options over Shares, rights issues of other securities and modifications of rights of conversion, etc. Details of the adjustment events under the terms and conditions of the Convertible Bonds are set out in Appendix I to this circular.

The initial Conversion Price of HK\$1.20 per Conversion Share:

- (i) equals to the theoretical average closing price of HK\$1.20 per New Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of Capital Reorganisation; and

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- (ii) represents a premium of approximately 1.69% over the theoretical closing price of HK\$1.18 per New Share as quoted on the Stock Exchange for the last five consecutive trading days including and up to the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iii) represents a premium of approximately 93.55% over the closing price of HK\$0.62 per New Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation; and
- (iv) represents a discount of approximately 66.76% to unaudited net asset value per New Share of approximately HK\$3.61 per New Share (after taking into account the effect of the Capital Reorganisation and based on the audited consolidated net asset value of the Company as at 31 December 2021 of approximately HK\$1,188,942,000 and 329,219,502 issued New Shares after the Capital Reorganisation has become effective); and
- (v) represents a discount of approximately 72.35% to the unaudited net asset value per New Share of approximately HK\$4.34 per New Share (after taking into account the effect of the Capital Reorganisation and based on the unaudited consolidated net asset value of the Company as at 30 June 2021 of approximately HK\$1,429,352,000 and 329,219,502 issued New Shares after the Capital Reorganisation has become effective).

Conversion period: The conversion period commences on the date the Convertible Bonds are issued and ends on the last Business Day immediately prior to the maturity date of the Convertible Bonds. Provided that any such conversion (i) shall not result in the Conversion Shares being issued at a price below their nominal value as at the applicable date of conversion; (ii) shall not result in the public float of the Shares falling below the minimum public float requirements under the Listing Rules or as required by the Stock Exchange immediately after such conversion; or (iii) shall not trigger a mandatory general offer obligation under the Takeovers Code.

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Lock-up period:	Conversion Shares shall be subject to a lock up period of six (6) calendar months from the issue date of the Conversion Shares, during which the Conversion Shares shall not be transferred or sold (“ Lock-Up Period ”).
Redemption on maturity:	Unless previously redeemed or converted, the Company shall redeem the Convertible Bonds on the maturity date at the redemption amount which shall be equal to 100% of the principal amount thereof outstanding.
Early redemption right at the option of the Company:	The Company may in its absolute discretion, without the consent of the Bondholders, redeem the whole or part of the outstanding Convertible Bonds at the principal amount of the outstanding Convertible Bonds to be redeemed at any time prior to the maturity date.
Status:	The Convertible Bonds constitute direct, unconditional, unsecured, unsubordinated obligations of the Company, and rank <i>pari passu</i> among themselves and at least <i>pari passu</i> in right of payment with all other present and future unsecured and unsubordinated obligations of the Company, except for obligations accorded preference by mandatory provisions of applicable law.
Conversion arrangement and procedures:	<p>A Bondholder must complete and sign a conversion notice and lodge such notice together with relevant certificate(s) of the Convertible Bonds at the office of the Company.</p> <p>Share certificate(s) in respect of the Conversion Share(s) will be kept by the Company during the Lock-Up Period. The Company will issue a written notice to the relevant Bondholder(s) of the issue date of such Conversion Shares.</p> <p>No charges will be levied for the conversion of Convertible Bonds.</p>
Transferability:	The Convertible Bonds (in whole or in part of the principal amount of the Convertible Bonds in the minimum amount of HK\$500,000 or whole multiple thereof) may be transferred or assigned from time to time, subject to compliance with all applicable regulatory requirements (if any).
Ranking of the Conversion Shares:	The Conversion Shares shall rank <i>pari passu</i> in all respects with the New Shares in issue as at the date of allotment and issuance of such Conversion Shares.

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Voting rights: Bondholders will not be entitled to attend or vote at any general meetings of the Company by reason of being Bondholders.

Listing: No application will be made to the Stock Exchange to list the Convertible Bonds.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares falling to be issued to the Convertible Bond Swap Option Creditors upon conversion of the Convertible Bonds issued based on their Admitted Claims. The principal amount of the Convertible Bonds and the underlying Conversion Shares to be issued will be fixed by the Scheme Administrators as soon as possible after the Preference indication Date.

The Conversion Shares will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

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

Determination of the Conversion Price and the Issue Price

The Issue Price and the Conversion Price were determined after considering, among other things, the prevailing share prices of the Company at the time of the despatch on the Scheme Document to the Scheme Creditors on 18 January 2022 by the Company and the Scheme Creditors' acceptance of the terms of the Creditors' Scheme.

The Directors also noted that both the Issue Price and the Conversion Price represent a substantial discount of approximately 72% to the net assets value per New Share of HK\$4.41 per New Share and HK\$4.34 per New Shares respectively as at 31 December 2020 and 30 June 2021 (calculated based on the audited/unaudited net asset value attributable to Shareholders for the year ended 31 December 2020 and for the six months ended 30 June 2021 and the number of New Shares in issue as at the Last Trading Day (taking into account the effect of the Capital Reorganisation)). However, considering the Shares had been consistently traded at a substantial discount to the net assets value per New Share as at 31 December 2020 and 30 June 2021 as calculated above, ranging from a minimum discount of approximately 46.08% to a maximum discount of approximately 78.68% as compared to the highest and the lowest closing prices of HK\$2.34 and HK\$0.94 per New Share (taking into account the effect of the Capital Reorganisation) for the one-

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year period before the Last Trading Day, the Company considered that the prevailing market price of the Shares would be a more appropriate reference, instead of the net assets value per Share.

The Directors (including the independent non-executive Directors after receiving the advice from Gram Capital) consider that the terms of the Creditors' Scheme (including the Conversion Price and the Issue Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONVERTIBLE BONDS TO MING XIN

Among the Scheme Creditors, Ming Xin has loaned to the Company. Ming Xin (being an indirect wholly-owned subsidiary of Century Sunshine) is a controlling Shareholder, holding 4,761,117,434 Shares, representing approximately 72.31% of the existing Shares in issue, as at the Latest Practicable Date.

As at the Latest Practicable Date, Ming Xin gave an undertaking to the Company that Ming Xin will elect for the Convertible Bonds Swap Option under the Creditors' Scheme in respect of the entirety of its Claims. Up to the Joint Provisional Liquidators Appointment Date, the total amount due to Ming Xin (including the interests accrued thereon and calculated up to the Joint Provisional Liquidators Appointment Date at the applicable interest rate of the relevant Debt Instruments) is HK\$447,076,299 and it is expected that the maximum entitlement of Ming Xin under the Convertible Bonds Swap Option is as follows:

Principal Amount (HK\$)	447,076,299
Maximum Conversion Shares upon full conversion (based on initial Conversion Price)	372,563,582
% to the issued share capital of the Company (assuming the Capital Reorganisation has become effective) as at the Latest Practicable Date	113.1%

The effect to Ming Xin's shareholding interests in the Company as a result of full conversion of Convertible Bonds by Ming Xin at the initial Conversion Price assuming (i) all Scheme Creditors (excluding Ming Xin) take up the Term Extension Option; and (ii) all Scheme Creditors take up the Convertible Bonds Swap Option and full conversion of the Convertible Bonds at the initial Conversion Price have been disclosed in the section headed "Impact of the Creditors' Scheme on the Shareholding Structure of the Company" in this letter.

The treatment to be received by Ming Xin under the Creditors' Scheme shall be the same as those for other Scheme Creditors.

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REASONS FOR AND BENEFITS OF THE CREDITORS' SCHEME

The Company is an investment holding company and the Group is principally engaged in the magnesium product business in the PRC.

Bermuda Petition, appointment of the Joint Provisional Liquidators and Hong Kong Petition

On 3 July 2020, Century Sunshine announced the default on the redemption of the subordinated notes issued by Century Sunshine and listed on the Singapore Stock Exchange which matured on 3 July 2020. The default constitutes an event of default in respect of certain borrowings of the Group.

On 3 July 2020, the Company presented the Bermuda Petition to the Bermuda Court on the basis that the Company was unable to pay its debts within the meaning of Section 162 of the Bermuda Companies Act and simultaneously applied for the appointment of provisional liquidators (for restructuring purposes only).

The Joint Provisional Liquidators were appointed by the order of the Bermuda Court dated 16 July 2020 (as amended on 7 August 2020) and were authorised with the powers to act jointly and severally to develop and propose a restructuring of the Company's indebtedness in a manner designed to allow the Company to continue as a going concern, with a view to making a compromise or arrangement with the creditors, including (without limitation) a compromise or arrangement by way of a scheme of arrangement pursuant to Section 99 of the Companies Act 1981. The Board would retain all of its executive powers in relation to the ordinary course of business of the Company, save that the Joint Provisional Liquidators' supervision and approval from Joint Provisional Liquidators is required for matters outside the ordinary course of business of the Company.

The hearing of the Bermuda Petition has since been further adjourned to a date to be fixed.

The appointment of the Joint Provisional Liquidators was recognised by the Hong Kong Court by order dated 25 August 2020. Pursuant to the said order, the Joint Provisional Liquidators have and may exercise such powers as are available to them for the purposes of, among other things, developing and proposing a restructuring of the Company's indebtedness in a manner designed to allow the Company to continue as a going concern, with a view to making a compromise or arrangement with the Company's creditors, including (without limitation) a compromise or arrangement by way of a scheme of arrangement.

On 22 February 2021, AI Global Investment SPC, a Scheme Creditor presented the Hong Kong Petition to the Hong Kong Court in respect of a claim of US\$20,707,777.78 (with interest) against the Company. The Company opposes the Hong Kong Petition and the hearing of the Hong Kong Petition has been adjourned to 27 May 2022 to be heard together with the proposed sanctioning of the Creditors' Scheme.

LETTER FROM THE BOARD

Proposed Restructuring

As disclosed in the September Announcement, the annual reports of the Company for the two years ended 31 December 2021, the Company has actively participated in negotiations with its creditors and the Joint Provisional Liquidators to discuss and consider various debt restructuring plans of the Company, including but not limited to, debt restructuring by way of a creditors' scheme of arrangement.

In view of the financial position of the Company, in the opinion of the Directors, a financial restructuring of the Company's liabilities by way of the Creditors' Scheme is necessary if a winding up of the Company is to be avoided. The Creditors' Scheme, if sanctioned, will facilitate the Proposed Restructuring and all Claims of the Scheme Creditors will be discharged and extinguished in full on the Scheme Effective Date; and the Scheme Creditors will not be allowed to make any claim against the Company in respect of their Claims once the Creditors' Scheme becomes effective.

Considering the effect of the Creditors' Scheme, the Company proposed to put forward the Creditors' Scheme involving options to extend the loan repayment period for the Extended Term, the issue of Scheme Shares and/or Convertible Bonds for the discharge of the outstanding liabilities under the Creditors' Scheme, so as to (i) resolve its financial difficulties as to its short term repayment obligations and therefore strengthen the liquidity and financial position of the Company; and (ii) swap the existing interest bearing liabilities with zero coupon Convertible Bonds. The Creditors' Scheme has been approved by the requisite statutory majorities of the Scheme Creditors at the Adjourned Scheme Meeting held on 1 March 2022 and upon obtaining the Sanction Order from the Hong Kong Court, the Company will seek order(s) from the Bermuda Court for the Bermuda Petition to be withdrawn or dismissed, the order for the appointment of the Joint Provisional Liquidators to be discharged and the Joint Provisional Liquidators be unconditionally released as provisional liquidators of the Company.

Shareholders should note that if the requisite approvals are not obtained or if the requisite approvals are obtained but the other conditions precedent to the Creditors' Scheme are not fulfilled or waived (as the case may be), the Creditors' Scheme will not take effect and will lapse. If the Creditors' Scheme is not approved, among other things, the Proposed Restructuring will not occur and it is likely that, in the Board and the Joint Provisional Liquidators' view, the Company will then be placed into insolvent liquidation.

In light of the above and given that the proposed Creditors' Scheme should give equal treatments to all creditors of the Company in the same class including Ming Xin and the Creditors' Scheme has already been approved by the Scheme Creditors at the Adjourned Scheme Meeting, the Directors (including the independent non-executive Directors after receiving the advice from Gram Capital) are of the view that the terms of the Creditors' Scheme are fair and reasonable and the Creditors' Scheme and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Joint Provisional Liquidators also believe that the Proposed Restructuring and the participation by the Company in the transactions contemplated by the Creditors' Scheme are in the best interests of the Company and its creditors by allowing a situation where: (i) creditors may obtain a higher return as compared to what they are likely to receive in a liquidation of the Company; (ii) creditors may maximise recovery prospects in an expedited, fair and equitable way consistent with applicable law and the economic consequences of financial distress; and (iii) a winding up of the Company may be avoided and the Company may continue as a going concern.

EQUITY FUNDRAISING ACTIVITIES IN THE PAST TWELVE MONTHS

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

IMPACT OF THE CREDITORS' SCHEME ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

For illustration purpose, set out below is the shareholding structure of the Company

- (i) as at the Latest Practicable Date;
- (ii) upon the effective of the proposed Capital Reorganisation (assuming there is no other change in the issued share capital of the Company between the Latest Practicable Date and the effective date of the proposed Capital Reorganisation);
- (iii) assuming the Creditors' Scheme having become effective, (a) all the Scheme Creditors (excluding Ming Xin) take up the Term Extension Option and the issuance and allotment of the Scheme Shares to the Scheme Company under the Term Extension Shares Placement are made in full (without taking into account the public float restrictions as referred to in "I. Scheme Shares" under the section headed "Issue of Scheme Shares and Convertible Bonds under Specific Mandate" in this letter); (b) Ming Xin takes up the Convertible Bond Swap Option and (x) before conversion of Convertible Bonds by Ming Xin and (y) after full conversion of the Convertible Bonds by Ming Xin at the initial Conversion Price based on the maximum entitlement of Ming Xin under the Creditors' Scheme without taking into account the public float and Takeovers Code related restrictions as referred to in "II. Convertible Bonds" under the section headed "Issue of Scheme Shares and Convertible Bonds under Specific Mandate" in this letter; and (c) there is no other change in the issued share capital of the Company between the Latest Practicable Date and the date of allotment and issue of the Scheme Shares and/or the Conversion Shares other than the proposed Capital Reorganisation; and

LETTER FROM THE BOARD

(iv) assuming the Creditors' Scheme having become effective, all the Scheme Creditors take up the Convertible Bonds Swap Option and (a) before conversion of the Convertible Bonds by the Scheme Creditors; and (b) after full conversion of the Convertible Bonds by the Scheme Creditors at the initial Conversion Price without taking into account the public float and Takeovers Code related restrictions as referred to in "II. Convertible Bonds" under the section headed "Issue of Scheme Shares and Convertible Bonds under Specific Mandate" in this letter and there is no other change in the issued share capital of the Company between the Latest Practicable Date and the date of the issue of the Conversion Shares other than the proposed Capital Reorganisation):

(a) Assuming all the Scheme Creditors (excluding Ming Xin) take up the Term Extension Option and Ming Xin takes up the Convertible Bonds Swap Option

Shareholders	As at the Latest Practicable Date		Upon the effective of the Capital Reorganisation		Assuming Creditors' Scheme having become effective and all the Scheme Creditors (excluding Ming Xin) take up the Term Extension Option and Ming Xin takes up the Convertible Bonds Swap Option		Assuming Creditors' Scheme having become effective and all the Scheme Creditors (excluding Ming Xin) take up the Term Extension Option and Ming Xin takes up the Convertible Bonds Swap Option	
					Before conversion of the Convertible Bonds by Ming Xin		After full conversion of the Convertible Bonds by Ming Xin at the initial Conversion Price	
	Number of Shares	Approx %	Number of New Shares	Approx %	Number of New Shares	Approx %	Number of New Shares	Approx %
Ming Xin (Note 1)	4,761,117,434	72.31	238,055,871	72.31	238,055,871	60.26	610,619,453	79.55
Scheme Company (Note 2)	-	-	-	-	65,843,900	16.67	65,843,900	8.57
Public	1,823,272,624	27.69	91,163,631	27.69	91,163,631	23.07	91,163,631	11.88
Total	6,584,390,058	100.00	329,219,502	100.00	395,063,402	100.00	767,626,984	100.00

(b) Assuming all the Scheme Creditors take up the Convertible Bonds Swap Option and full conversion of the Convertible Bonds at the initial Conversion Price

Shareholders	As at the Latest Practicable Date		Upon the effective of the Capital Reorganisation		Assuming Creditors' Scheme having become effective and all the Scheme Creditors take up the Convertible Bonds Swap Option and		Assuming Creditors' Scheme having become effective and all the Scheme Creditors take up the Convertible Bonds Swap Option and	
					Before conversion of the Convertible Bonds by Scheme Creditors		After full conversion of the Convertible Bonds by Scheme Creditors at the initial Conversion Price	
	Number of Shares	Approx %	Number of New Shares	Approx %	Number of New Shares	Approx %	Number of New Shares	Approx %
Ming Xin (Note 1)	4,761,117,434	72.31	238,055,871	72.31	238,055,871	72.31	610,419,453	63.16
Bondholders (Note 1)	-	-	-	-	-	-	264,868,339	27.41
Public	1,823,272,624	27.69	91,163,631	27.69	91,163,631	27.69	91,163,631	9.43
Total	6,584,390,058	100.00	329,219,502	100.00	329,219,502	100.00	966,451,423	100.00

LETTER FROM THE BOARD

Notes:

1. The Convertible Bonds are freely transferable and convertible into Conversion Shares except that Bondholders shall not convert the Convertible Bonds if by doing so: (i) the minimum public float requirements stipulated by the Listing Rules will not be met; or (ii) they will trigger a mandatory offer under the Takeovers Code.
2. The Scheme Shares held by the Scheme Company for and on behalf of the Term Extension Option Creditors. The Company will not issue and/or will withhold the issue of the Scheme Shares if it will result in any one of the Term Extension Option Creditors becoming a substantial Shareholder.
3. As at the Latest Practicable Date, there are 348,400,000 outstanding Options to subscribe for an aggregate number of 348,400,000 Shares, of which 45,000,000 Options at the exercise price of HK\$0.4 each were granted to Directors, 140,000,000 Options and 163,400,000 Options at the respective exercise price of HK\$0.3 and HK\$0.4 each were granted to employees of the Group. Save for the outstanding Options, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

INFORMATION OF THE GROUP AND CENTURY SUNSHINE GROUP

The Group

The Company is an investment holding company incorporated in the Bermuda with limited liability. The Group is principally engaged in the magnesium product business in the PRC.

China Rare Earth Magnesium Technology Holdings Limited is an investment holding company incorporated in Hong Kong with limited liability and is indirectly wholly-owned by the Company.

Baishan Tianan is a limited liability company incorporated under the laws of the PRC and is indirectly wholly-owned by the Company. It is principally engaged in the magnesium product business in the PRC.

Fullocean Group Limited is an investment holding company incorporated in the British Virgin Islands with limited liability and is indirectly wholly-owned by the Company.

Sure Sino Global Limited is an investment holding company incorporated in the British Virgin Islands with limited liability and is indirectly wholly-owned by the Company.

LETTER FROM THE BOARD

Century Sunshine Group

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

Ming Xin is an investment holding company incorporated in British Virgin Islands with limited liability. Ming Xin is a wholly-owned subsidiary of the Century Sunshine and a shareholder of the Company, who directly owns 72.31% of the Shares.

LISTING RULES IMPLICATION

Ming Xin (being an indirect wholly-owned subsidiary of Century Sunshine) is a controlling Shareholder, holding 4,761,117,434 Shares, representing approximately 72.31% of the existing Shares in issue as at the Latest Practicable Date.

Accordingly, Ming Xin is a connected person of the Company under Chapter 14A of the Listing Rules.

Therefore, so far as the issuance of Convertible Bonds to Ming Xin under the Creditors' Scheme is concerned, the Creditors' Scheme will upon implementation constitute a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to the reporting, announcement, circular and independent shareholders' approval requirements.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, save for Ming Xin, the other Scheme Creditors are Independent Third Parties.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (other than Mr. Cheung Sound Poon who is an independent non-executive director of both Century Sunshine and the Company) has been established to advise the Independent Shareholders (taking into account the recommendation of Gram Capital) as to whether the terms of the proposed Creditors' Scheme and the transactions contemplated thereunder are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) in the interests of the Company and its Shareholders as a whole; and (iv) how to vote on the proposed Creditors' Scheme and the transactions contemplated thereunder. Gram Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the connected transaction in relation to the proposed issued of Convertible Bonds under the Creditors' Scheme in this regard.

LETTER FROM THE BOARD

SGM

The SGM will be convened for the Shareholders and the Independent Shareholders (as the case may be) to consider and, if thought fit, to approve, among other things, (i) the Proposed Capital Reorganisation and (ii) the Creditors' Scheme and the transactions (including the grant of the Specific Mandate for the allotment and issue of the Scheme Shares and the Conversion Shares and the connected transaction in respect of the issue of Convertible Bonds to Ming Xin) contemplated thereunder.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM (i.e. not later than 2:30 p.m. on Monday, 23 May 2022) 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 in person at the SGM or any adjournment thereof (as the case maybe) should you so wish. Voting on the proposed resolution at the SGM will be taken by poll.

Any Shareholder who is interested in the proposed Creditors' Scheme and the transactions contemplated thereunder shall abstain from voting on the resolution(s) to approve the proposed Creditors' Scheme and the transactions contemplated thereunder at the SGM.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the Latest Practicable Date, save for Ming Xin (being a controlling Shareholder holding 4,761,117,434 Shares, representing 72.31% of the existing Shares in issue), who is required to abstain from voting on the resolutions to approve the Proposed Creditors' Scheme and the transactions contemplated thereunder, no other Shareholder is interested in the proposed Creditors' Scheme and the transactions contemplated thereunder and will be required to abstain from voting on the resolution(s) to approve the proposed Creditors' Scheme and the transactions contemplated thereunder at the SGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder has a material interest in the Capital Reorganisation and no Shareholder is required to abstain from voting at the SGM.

Save for Mr. Cheung Sound Poon, who is an independent non-executive director of both Century Sunshine and the Company and has abstained from voting on the resolutions in the board meeting of the Company for considering and approving the Creditors' Scheme, no other Director had a material interest in the Creditors' Scheme and was required to abstain from voting on the resolutions in the board meeting of the Company for considering and approving the Creditors' Scheme.

LETTER FROM THE BOARD

Shareholders and potential investors of the Company should note that both the proposed Capital Reorganisation and the proposed Creditors' Scheme are subject to the satisfaction of the conditions and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 20 May 2022 to Wednesday, 25 May 2022, both days inclusive, during which no transfer of Shares will be effected.

In order to be eligible to attend and vote at the SGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 19 May 2022 for registration.

RECOMMENDATION

Proposed Capital Reorganisation

The Directors (including the independent non-executive Directors) consider the Proposed Capital Reorganisation is in the best interest of the Company and Shareholders as a whole, the Directors therefore recommend the Shareholders to vote in favour of such relevant resolution(s) to be proposed at the SGM.

Creditors' Scheme

You are advised to read carefully the letter from the Independent Board Committee on pages 54 to 55 of this circular. The Independent Board Committee, having taken into account the advice of Gram Capital, the text of which is set out on pages 56 to 71 of this circular, considers that the terms of the proposed Creditors' Scheme and the transactions contemplated thereunder (including the grant of the Specific Mandate for the allotment and issue of the Scheme Shares and the Conversion Shares and the connected transaction in respect of the issue of Convertible Bonds to Ming Xin), although the proposed Creditors' Scheme and the transactions contemplated thereunder are not conducted in the ordinary and usual course of the business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the SGM to approve the Creditors' Scheme and the transactions (including the grant of the Specific Mandate for the allotment and issue of the Scheme Shares and the Conversion Shares and the connected transaction in respect of the issue of Convertible Bonds to Ming Xin).

LETTER FROM THE BOARD

The Directors (excluding the independent non-executive Directors who have expressed their recommendation in their letter to the Independent Shareholders on pages 54 to 55 of this circular) consider that the Creditors' Scheme and the transactions contemplated thereunder (including the grant of the Specific Mandate for the allotment and issue of the Scheme Shares and the Conversion Shares and the connected transaction in respect of the issue of Convertible Bonds to Ming Xin), although the proposed Creditors' Scheme and the transactions contemplated thereunder are not conducted in the ordinary and usual course of the business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Creditors' Scheme and the transactions (including the grant of the Specific Mandate for the allotment and issue of the Scheme Shares and the Conversion Shares and the connected transaction in respect of the issue of Convertible Bonds to Ming Xin).

By order of the Board

Rare Earth Magnesium Technology Group Holdings Limited

(in provisional liquidation)

(for restructuring purposes only)

Shum Sai Chit

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting out its recommendation to the Independent Shareholders in respect of the Creditors' Scheme and the transactions contemplated thereunder.



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稀镁科技集團控股有限公司

RARE EARTH MAGNESIUM TECHNOLOGY GROUP HOLDINGS LIMITED

(in provisional liquidation)

(for restructuring purposes only)

(Incorporated in Bermuda with limited liability)

(Stock Code: 601)

3 May 2022

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RESTRUCTURING INVOLVING, INTER ALIA,
CREDITORS' SCHEME;
PROPOSED ISSUE OF SCHEME SHARES AND CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE;
AND
CONNECTED TRANSACTION IN RELATION TO PROPOSED ISSUE OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE**

We refer to the circular of the Company dated 3 May 2022 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether the terms of the proposed Creditors' Scheme and the transactions (including the grant of the Specific Mandate for the allotment and issue of the Scheme Shares and the Conversion Shares and the connected transaction in respect of the issue of Convertible Bonds to Ming Xin) contemplated thereunder are fair and reasonable and to advise the Independent Shareholders on how to vote, taking into account the recommendations of Gram Capital. Gram Capital Limited has been appointed as the Independent Financial Adviser to advise you and us in respect of the connected transaction in relation to the proposed issue of Convertible Bonds under the Creditors' Scheme.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to (i) the letter of advice from Gram Capital as set out on pages 56 to 71 of the Circular and (ii) the Letter from the Board as set out on pages 15 to 53 of the Circular and the additional information set out in the appendix thereto.

RECOMMENDATION

Having considered the terms of the Creditors' Scheme, and taking into account the advice of Gram Capital, in particular the principal factors, reasons and recommendation taken into consideration by them in arriving at their opinion, we consider the Creditors' Scheme and the transactions contemplated thereunder (including the grant of the Specific Mandate for the allotment and issue of the Scheme Shares and the Conversion Shares and the connected transaction in respect of the issue of Convertible Bonds to Ming Xin), although the proposed Creditors' Scheme and the transactions contemplated thereunder are not conducted in the ordinary and usual course of the business of the Company, are on normal commercial terms, in the interests of the Company and the Independent Shareholders as a whole and the terms therein are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Creditors' Scheme and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

the Independent Board Committee of

Rare Earth Magnesium Technology Group Holdings Limited

Mr. Kwong Ping Man

Mr. Kwan Ngai Kit

Independent non-executive Director Independent non-executive Director

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Connected Transaction for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

3 May 2022

*To: The independent board committee and the independent shareholders
of Rare Earth Magnesium Technology Group Holdings Limited*

Dear Sir/ Madam,

CONNECTED TRANSACTION IN RELATION TO PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the connected transaction regarding the proposed issuance of Convertible Bonds under the Creditors' Scheme (the "**Connected Transaction**"), details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 3 May 2022 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the September Announcement and the Board Letter, the Company proposed to implement, subject to the approval by the Hong Kong Court, the Creditors' Scheme. On 1 March 2022, the Creditors' Scheme was approved by the requisite statutory majorities of the Scheme Creditors at the Adjourned Scheme Meeting held on the same day. The Hong Kong Court will consider the sanctioning of the Creditors' Scheme at the Sanction Hearing. After the sanction of the Hong Kong Court has been obtained, the Sanction Order will be filed with the Companies Registry in Hong Kong for registration, and the Creditors' Scheme will, after the fulfilment of the conditions precedent as listed below, become effective. The Sanction Hearing has been fixed on Friday, 27 May 2022.

LETTER FROM GRAM CAPITAL

The Creditors' Scheme comprises (i) the Term Extension Option; (ii) the Convertible Bonds Swap Option; and (iii) a combination of the aforementioned two options. Each Scheme Creditor with Admitted Claims is entitled, to the extent of the total value of his/her/its Admitted Claim(s), to elect between options (i), (ii) and (iii) above.

Among the Scheme Creditors, Ming Xin has loaned to the Company. Ming Xin (being an indirect wholly-owned subsidiary of Century Sunshine) is a controlling Shareholder. Ming Xin gave an undertaking to the Company intends to elect for the Convertible Bonds Swap Option under the Creditors' Scheme in respect of the entirety of its claim. The treatment to be received by Ming Xin under the Creditors' Scheme shall be the same as those for other Scheme Creditors.

The issuance of Convertible Bonds to Ming Xin under the Creditors' Scheme (i.e. the Connected Transaction) constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to the reporting, announcement, circular and independent shareholders' approval requirements.

The Independent Board Committee comprising Mr. Kwong Ping Man and Mr. Kwan Ngai Kit (all being independent non-executive Directors) has been established to advise the Independent Shareholders on, amongst others, (i) whether the terms of the Connected Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Connected Transaction is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Connected Transaction at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Company. We have assumed that all information and representations that have been provided by the Company, for which it is solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt

LETTER FROM GRAM CAPITAL

the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/ or the Directors, which have been provided to us. Our opinion is based on the Company's representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Connected Transaction. We consider that we have taken sufficient and necessary steps (including review of the Group's financial information for each of the three years ended 31 December 2021, the Creditors' Scheme and discussion with the Company's management) on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The 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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Ming Xin or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Connected Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

LETTER FROM GRAM CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Connected Transaction, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Connected Transaction

Information on the Group

With reference to the Board Letter, the Company is an investment holding company and the Group is principally engaged in the magnesium product business in the PRC.

Set out below are the consolidated financial information of the Group for the three years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2020 (the "2020 Annual Report") and annual report for the year ended 31 December 2021 (the "2021 Annual Report"):

	For the year ended 31 December 2021 ("FY2021") HK\$'000	Changes from FY2020 to FY2021 %	For the year ended 31 December 2020 ("FY2020") HK\$'000	Changes from FY2019 to FY2020 %	For the year ended 31 December 2019 ("FY2019") HK\$'000
Revenue	416,060	(44.14)	744,836	(50.85)	1,515,291
Gross profit	68,775	(47.17)	130,171	(68.72)	416,206
(Loss)/profit for the year/period attributable to owners of the Company	(331,883)	348.42	(74,011)	N/A	209,732
	As at 31 December 2021 HK\$'000	Change from FY2020 to FY2021 %	As at 31 December 2020 HK\$'000	Change from FY2019 to FY2020 %	As at 31 December 2019 HK\$'000
Net assets	1,188,942	(18.11)	1,451,922	4.61	1,387,887
Net current (liabilities)/assets	(483,515)	167.43	(180,801)	N/A	83,721

LETTER FROM GRAM CAPITAL

As illustrated in the above table, the Group's revenue and gross profit for FY2020 decreased substantially by approximately 50.85% and 68.72% as compared to those for FY2019. With reference to the 2020 Annual Report, such decreases were mainly due to the spread of the global COVID-19 epidemic outbreak, in response to which governments of all countries carried out stringent prevention and control measures which led to the suspension of production of enterprises, pressure on the supply and demand sides of the industrial chain, weak market demand and the low magnesium price.

Loss attributable to owners of the Company for FY2020 was approximately HK\$74.01 million as compared with profit attributable to owners of the Company of approximately HK\$209.73 million for FY2019. With reference to the 2020 Annual Report, such turnaround was primarily attributable to decrease in the Group's gross profit and increase in the Group's administrative expenses and finance costs.

The Group recorded revenue and gross profit of approximately HK\$416.06 million and HK\$68.78 million for FY2021, representing significant decreases of approximately 44.14% and 47.17% as compared to those for FY2020. With reference to the 2021 Annual Report, such decreases were mainly due to lingering constraints to working capital of the Group as a result of the influence of the Group's offshore debt restructuring. Since the Company applied to the Bermuda Court for provisional liquidation for debt restructuring purpose in July 2020, suppliers and customers have been more cautious about orders due to the impact of the offshore debt restructuring and increased costs of raw materials.

The Group recorded loss attributable to owners of the Company of approximately HK\$331.88 million for FY2021, representing a substantial increase of approximately 348.42% as compared to that for FY2020. We noted from the 2021 Annual Report that the aforesaid increase was mainly due to decrease in the Group's gross profit, increase in net allowance for expected credit losses on trade receivables, deposits and other receivables and substantial impairment loss recognised on property, plant and equipment for FY2021 (FY2020: nil).

The Group recorded net current liabilities as at 31 December 2020 and 31 December 2021. As at 31 December 2021, the Group's cash and cash equivalents, total borrowings, net current liabilities and net assets were approximately HK\$25.08 million, HK\$876.04 million, HK\$483.52 million and HK\$1,188.94 million respectively. With reference to the 2021 Annual Report, the Group's net current liabilities, amongst others, indicate the existence of a material uncertainty that cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

LETTER FROM GRAM CAPITAL

With reference to the 2021 Annual Report, since the Company applied to the Bermuda Court in July 2020 for the appointment of provisional liquidators, the Company has overcome obstacles ahead to maintain normal operations, while continuously discussing with creditors on the debt restructuring plan. The Creditors' Scheme raised by the Company was approved by the requisite statutory majorities of the Scheme Creditors on 1 March 2022, which enables the Company to pay off the debts in phases within the next five years. Going forward, the Company will discharge provisional liquidation in accordance with the procedures and requirements of the Bermuda Court and other relevant statutory bodies, and get back on the healthy track.

Information on Ming Xin

With reference to the Board Letter, Ming Xin (being an indirect wholly-owned subsidiary of Century Sunshine) is a controlling Shareholder and a connected person of the Company.

Reasons for and benefits of the Creditors' Scheme (including the Connected Transaction)

With reference to the Board Letter, on 3 July 2020, Century Sunshine announced the default on the redemption of the subordinated notes issued by Century Sunshine and listed on the Singapore Stock Exchange which matured on 3 July 2020. The default constitutes an event of default in respect of certain borrowings of the Group. On 3 July 2020, the Company presented the Bermuda Petition to the Bermuda Court on the basis that the Company was unable to pay its debts within the meaning of Section 162 of the Bermuda Companies Act and simultaneously applied for the appointment of provisional liquidators (for restructuring purposes only).

The Joint Provisional Liquidators were appointed by the order of the Bermuda Court dated 16 July 2020 (as amended on 7 August 2020). The appointment of the Joint Provisional Liquidators was recognised by the Hong Kong Court by order dated 25 August 2020. Pursuant to the said order, the Joint Provisional Liquidators have and may exercise such powers as are available to them for the purposes of, among other things, developing and proposing a restructuring of the Company's indebtedness in a manner designed to allow the Company to continue as a going concern, with a view to making a compromise or arrangement with the Company's creditors, including (without limitation) a compromise or arrangement by way of a scheme of arrangement.

LETTER FROM GRAM CAPITAL

As disclosed in the September Announcement, the 2020 Annual Report and the 2021 Interim Report, the Company actively participated in negotiations with its creditors and the Joint Provisional Liquidators to discuss and consider various debt restructuring plans of the Company, including but not limited to, debt restructuring by way of a creditors' scheme of arrangement. In view of the financial position of the Company, in the opinion of the Directors, a financial restructuring of the Company's liabilities by way of the Creditors' Scheme is necessary if a winding up of the Company is to be avoided. The Creditors' Scheme, if sanctioned, will facilitate the Proposed Restructuring and all Claims of the Scheme Creditors will be discharged and extinguished in full on the Scheme Effective Date; and the Scheme Creditors will not be allowed to make any claim against the Company in respect of their Claims once the Creditors' Scheme becomes effective.

Considering the effect of the Creditors' Scheme, the Company proposed to put forward the Creditors' Scheme involving options to extend the loan repayment period for the Extended Term, the issue of Scheme Shares and/or Convertible Bonds for the discharge of the outstanding liabilities under the Creditors' Scheme, so as to (i) resolve its financial difficulties as to its short term repayment obligations and therefore strengthen the liquidity and financial position of the Company; and (ii) swap the existing interest bearing liabilities with zero coupon Convertible Bonds and/or by issuing the Scheme Shares for payment of the Term Extension Interest. The Creditors' Scheme has been approved by the requisite statutory majorities of the Scheme Creditors at the Adjourned Scheme Meeting held on 1 March 2022 and upon obtaining the Sanction Order from the Hong Kong Court, the Company will seek order(s) from the Bermuda Court for the Bermuda Petition to be withdrawn or dismissed, the order for the appointment of the Joint Provisional Liquidators to be discharged and the Joint Provisional Liquidators be unconditionally released as provisional liquidators of the Company.

In light of the above and given that the proposed Creditors' Scheme should give equal treatments to all creditors of the Company in the same class including Ming Xin, the Directors are of the view that the terms of the Creditors' Scheme are fair and reasonable and the Creditors' Scheme and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

As mentioned in the section headed "Information on the Group" above, as at 31 December 2021, the Group's cash and cash equivalents, total borrowings and net current liabilities were approximately HK\$25.08 million, HK\$876.04 million and HK\$483.52 million respectively and, with reference to the 2021 Annual Report, the Group's net current liabilities, amongst others, indicate the existence of a material uncertainty that cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. Accordingly, it is necessary for the Group to carry out debt restructuring to address the aforesaid going concern issue.

LETTER FROM GRAM CAPITAL

Having considered the reasons for and benefits of the Creditors' Scheme above and that the Connected Transaction is part of the Creditors' Scheme, we are of the view that although the Connected Transaction is not conducted in the ordinary and usual course of business of the Company, it is in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the Connected Transaction

Subject to the Creditors' Scheme becoming effective and based on the amount of the Admitted Claims of the Convertible Bonds Option Creditors, the Company will issue the Convertible Bonds in the names of the Convertible Bonds Option Creditors within twenty-one (21) Business Days of the Preference Indication Date or the completion date of the Capital Reduction and the Share Sub-division, whichever is later, for distribution to Convertible Bonds Option Creditors, under which it is estimated that the Company will issue the Convertible Bonds in the maximum aggregate principal amount of approximately HK\$764,918,306 (representing the amount of the Estimated Total Claims up to the Joint Provisional Liquidators Appointment Date) at the initial Conversion Price of HK\$1.20 per Conversion Share. The principal amount of the Convertible Bonds of HK\$764,918,306 is indicative only and will be subject to (i) final determination by the Scheme Administrators and (if applicable) adjudication under the Creditors' Scheme and (ii) the amount of the Admitted Claims allocated by the Scheme Creditors to the Convertible Bonds Swap Option.

Among the Scheme Creditors, Ming Xin has loaned to the Company. Ming Xin (being an indirect wholly-owned subsidiary of Century Sunshine) is a controlling Shareholder. Based on the information provided by Ming Xin, as at the Latest Practicable Date, Ming Xin intends to elect for the Convertible Bonds Swap Option under the Creditors' Scheme in respect of the entirety of its claim.

Up to the Joint Provisional Liquidators Appointment Date, the total amount due to Ming Xin (including the interests accrued thereon and calculated up to the Joint Provisional Liquidators Appointment Date at the applicable interest rate of the relevant Debt Instruments) is HK\$447,076,299 and it is expected that the maximum entitled principal amount of Ming Xin under the Convertible Bonds Swap Option is HK\$447,076,299.

The treatment to be received by Ming Xin under the Creditors' Scheme shall be the same as those for other Scheme Creditors.

LETTER FROM GRAM CAPITAL

The principal terms of the Convertible Bonds are as follows:

Issuer:	The Company
Maturity date:	The fifth anniversary of the Scheme Effective Date
Interest rate:	Nil (zero coupon)
Conversion price:	The conversion price will initially be HK\$1.20 per Conversion Share, subject to adjustment provisions which are common for convertible securities of similar type including certain changes in the share capital of the Company including consolidation, sub-division or reclassification of Shares, capitalisation of profits or reserves, rights issues of Shares or options over Shares, rights issues of other securities and modifications of rights of conversion, etc.
Lock-Up Period:	Conversion Shares shall be subject to a lock up period of six calendar months from the issue date of the Conversion Shares, during which the Conversion Shares shall not be transferred or sold.
Redemption on maturity:	Unless previously redeemed or converted, the Company shall redeem the Convertible Bonds on the maturity date at the redemption amount which shall be equal to 100% of the principal amount thereof outstanding.
Early redemption right at the option of the Company:	The Company may in its absolute discretion, without the consent of the Bondholders, redeem the whole or part of the outstanding Convertible Bonds at the principal amount of the outstanding Convertible Bonds to be redeemed at any time prior to the maturity date.

Detailed terms of the Convertible Bonds are set out under the sub-section headed “ISSUE OF SCHEME SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE – II. Convertible Bonds” of the Board Letter.

Analysis on the Conversion Price

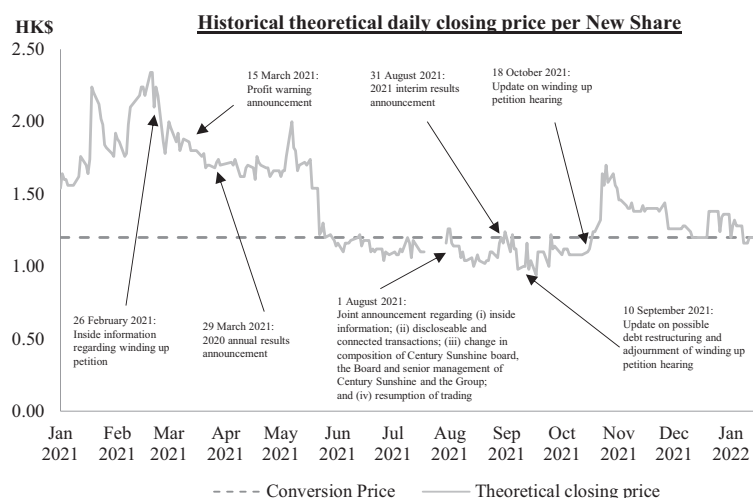
With reference to the Board Letter, the Conversion Price were determined after considering, among other things, the prevailing share prices of the Company and the Scheme Creditors’ acceptance of the terms of the Creditors’ Scheme.

LETTER FROM GRAM CAPITAL

The initial Conversion Price of HK\$1.20 per Conversion Share:

- (i) equals to the theoretical average closing price of HK\$1.20 per New Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of Capital Reorganisation; and
- (ii) represents a premium of approximately 1.69% over the theoretical closing price of HK\$1.18 per New Share as quoted on the Stock Exchange for the last five consecutive trading days including and up to the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iii) a discount of approximately 66.85% (the “NAV Discount”) to the Group’s audited net assets per New Share of approximately HK\$3.62 as at 31 December 2021, based on the 6,584,390,058 Shares (equivalent to 329,219,502 New Shares) in issue as at the Latest Practicable Date; and
- (iv) represents a premium of approximately 93.55% over the theoretical closing price of HK\$0.62 per New Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation.

In order to assess the fairness and reasonableness of the Conversion Price, we reviewed the theoretical daily closing price of the New Shares (as quoted on the Stock Exchange and adjusted for the effect of Capital Reorganisation) from 4 January 2021 up to and including 17 January 2022 (i.e. the Last Trading Day) (the “**Review Period**”), being a period of approximately one year prior to the Last Trading Day. The comparison of theoretical daily closing prices of the New Shares and the Conversion Price is illustrated as follows:



Source: the Stock Exchange’s website

Note: Trading in Shares was halted from 22 July 2021 to 1 August 2021.

LETTER FROM GRAM CAPITAL

During the Review Period, the lowest and highest theoretical closing prices of the New Shares were HK\$0.94 per New Share recorded on 20 September 2021 and HK\$2.34 per New Share recorded on 22 February 2021 and 23 February 2021 respectively. The Conversion Price of HK\$1.20 is within the range of the lowest and highest theoretical closing prices of the New Shares during the Review Period.

The theoretical closing prices of the New Shares fluctuated between HK\$1.54 and HK\$2.34 during the period from 4 January 2021 to 10 May 2021. Subsequently, the theoretical closing prices of the New Shares plunged and reached HK\$1.10 on 7 June 2021. The theoretical closing prices of the New Shares fluctuated between HK\$0.94 and HK\$1.26 during the period from 8 June 2021 to 15 October 2021. Thereafter, the theoretical closing prices of the New Shares rebounded and reached HK\$1.44 on 28 October 2021. After such rebound, the theoretical closing prices of the New Shares followed a general downward trend up to the Last Trading Day. Save as and except for the possible market reaction on the announcements made by the Company during the Review Period, we did not identify any specific reason which caused the aforesaid fluctuation of the theoretical closing prices of the New Shares.

As part of our analysis, we also identified transactions in relation to the placing/subscription of convertible bonds/notes under specific mandate which were announced by companies listed on the Stock Exchange during the Review Period (the “**CB Comparables**”). We consider a 1-year period would allow sufficient, fair and representative comparable cases to demonstrate the market practice prior to and including the Last Trading Day. To the best of our knowledge and as far as we are aware of, we found 16 transactions which met the said criteria and the list of the CB Comparables is exhaustive. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the CB Comparables.

LETTER FROM GRAM CAPITAL

Company name (stock code)	Date of announcement	Maturity (Years)	Interest rate per annum (%)	Premium/(discount) of the conversion price to closing price per share on the date of agreement/ announcement in relation to the respective placing/ subscription of convertible bonds/ notes (%)	Premium/(discount) of the conversion price over/to the latest published net asset value per share on the date of agreement/ announcement in relation to the respective placing/ subscription of convertible bonds/ notes (%)
China Mengniu Dairy Company Limited (2319)	24 January 2021	5.0	3.08	(24.99)	322.23
Target Insurance (Holdings) Limited (6161)	26 January 2021	5.0	Nil	(8.06)	2.30
i-Cable Communications Limited (1097)	27 January 2021	10.0	2	13.33	4.65
Sheng Yuan Holdings Limited (851)	1 April 2021	2.0	1	Nil	N/A (Note 3)
ETS Group Limited (8031)	10 May 2021	2.0	Nil	102.67 (Note 1)	45.98
Asia Television Holdings Limited (707)	14 May 2021	2.0	8	104.08 (Note 1)	616.81
Hong Kong Resources Holdings Company Limited (2882)	31 May 2021	2.0	4	10.17	N/A (Note 3)
Zhi Sheng Group Holdings Limited (8370)	2 June 2021	2.5	4	49.25	126.65
CMMB Vision Holdings Limited (471)	29 June 2021	7.0	Nil	22.81	(85.16)
Hope Life International Holdings Limited (1683)	23 July 2021	3.0	3	17.12	(64.96)
Century Sage Scientific Holdings Limited (1450)	30 July 2021	3.0	1	(71.25) (Note 1)	146.74
Hua Yin International Holdings Limited (989)	7 September 2021	3.0	2	2.63	N/A (Note 3)
Wai Chun Group Holdings Limited (1013)	21 October 2021	3.0	2	(11.11)	N/A (Note 3)
Wai Chun Bio-Technology Limited (660)	22 October 2021	3.0	2	Nil	N/A (Note 3)
China Public Procurement Limited (1094)	3 December 2021	7.0	5	(1.96)	105.86
Kirin Group Holdings Limited (8109)	8 December 2021	1.0	2	10.00	196.35
Maximum		10.00	8.00	104.08 (49.25 excluding outliers)	616.81
Minimum		1.00	Nil	(71.25) ((24.99) excluding outliers)	(85.16)
Average		3.78	2.44	13.42 (6.09 excluding outliers)	128.86
The Company		5	Nil	Nil	(66.85)

Source: the Stock Exchange's website

LETTER FROM GRAM CAPITAL

Notes:

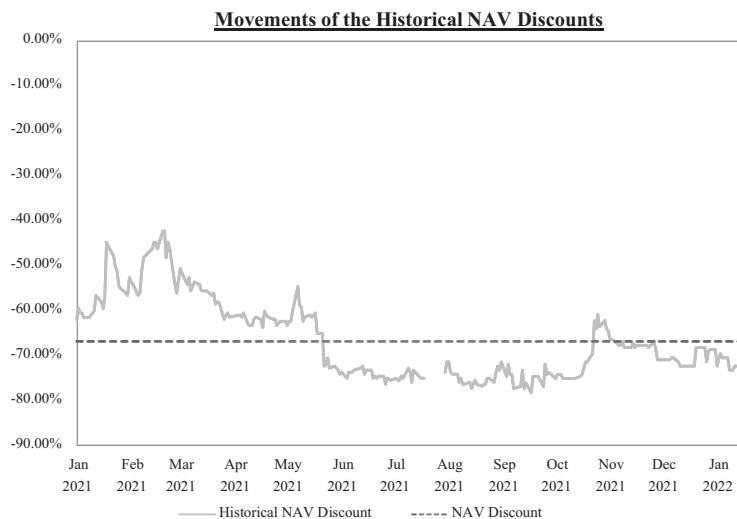
1. Considered to be an outlier as it represents exceptional premium/discount.
2. Based on the then published net asset value attributable to the shareholders of the subject companies.
3. The subject companies recorded net liabilities.

We noted from the above table that the conversion prices of the CB Comparables ranged from a discount of approximately 24.99% to a premium of approximately 49.25% with average premium of approximately 6.09% (excluding outliers) to/over the respective closing prices of the shares on the last trading day prior to the date of agreement/announcement in relation to the respective placing/subscription of convertible bonds/notes (the “**Discount/Premium Market Range**”). As such, the Conversion Price, which equals to the theoretical closing price of the New Shares on the Last Trading Day, falls within the Discount/Premium Market Range. Therefore, we are of the opinion that the Conversion Price is in line with the market practice.

We also noted from the above table that the premiums/discounts of the conversion prices of the CB Comparables over/to the latest published net asset value per share (the “**CB Comparables NAV Premiums/Discounts**”) on the date of agreement/announcement varies from one another and the range is wide. Such variations and wide range may be caused by differences in industry, business and operation among the subject companies of the CB Comparables. Given the above, we consider that it is not meaningful to compare the NAV Discount with the CB Comparables NAV Premiums/Discounts.

LETTER FROM GRAM CAPITAL

In light of the NAV Discount, we reviewed discounts of theoretical closing prices of the New Shares to the Group's historical net assets per New Share during the Review Period (the “**Historical NAV Discount(s)**”) as set out in the chart below:



Notes:

As the Company's interim results announcement for the six months ended 30 June 2020 was published after trading hours on 31 August 2020, the Company's annual results announcement for FY2020 was published on 28 March 2021, the Company's interim results announcement for the six months ended 30 June 2021 was published after trading hours on 31 August 2021 and the Company's annual results announcement for FY2021 was published after trading hours on 31 March 2022:

1. The Historical NAV Discounts from 4 January 2021 to 26 March 2021 were calculated based on the theoretical closing prices of the New Shares and the Group's net asset value as at 30 June 2020.
2. The Historical NAV Discounts from 29 March 2021 to 31 August 2021 were calculated based on the theoretical closing prices of the New Shares and the Group's net asset value as at 31 December 2020.
3. The Historical NAV Discounts from 1 September 2021 to 17 January 2022 were calculated based on the theoretical closing prices of the New Shares and the Group's net asset value as at 30 June 2021.

As illustrated by the above chart, the Historical NAV Discounts ranged from approximately 42.28% to 78.34% during the Review Period with an average of approximately 66.48%. The NAV Discount of approximately 66.85% is within the aforesaid range and close to the aforesaid average.

Having also considered that the Conversion Price of HK\$1.20 is within the range of the lowest and highest theoretical closing prices of the New Shares during the Review Period, we consider the Conversion Price to be fair and reasonable.

LETTER FROM GRAM CAPITAL

Analysis on the interest rate

As presented by the table above, the CB Comparables had annual interest rates from nil to 8% (the “**CB Interest Market Range**”) and the Convertible Bonds will not bear any interest (zero-coupon). We consider that it is fair and reasonable.

Other terms of the Connected Transaction

Please refer to the Board Letter for further details and terms of the Connected Transaction.

Taking into account the principal terms of the Connected Transaction as highlighted above, we are of the view that the terms of the Connected Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Possible dilution effect on the shareholding interests of the public Shareholders

As illustrated by the shareholding table contained under the section headed “IMPACT OF THE CREDITORS’ SCHEME ON THE SHAREHOLDING STRUCTURE OF THE COMPANY” of the Board Letter, the shareholding interests of the public Shareholders would be diluted by approximately 18.26 percentage points assuming all the Scheme Creditors (including Ming Xin) take up the Convertible Bonds Swap Option and full conversion of the Convertible Bonds at the initial Conversion Price. In this regard, taking into account (i) the reasons for the Connected Transaction; and (ii) the terms of the Connected Transaction being fair and reasonable, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders is justifiable.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Connected Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Connected Transaction is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Connected Transaction and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

Subject to the other terms and conditions of the Convertible Bonds, set out below are the adjustment events under the terms and conditions of the Convertible Bonds:

- (i) *Consolidation, Subdivision or Reclassification:* If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

- (ii) *Capitalisation of Profits or Reserves:*

- (a) If and whenever the Issuer shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account) including Shares paid up out of distributable profits or reserves and/or share premium account issued, (other than (1) where Shares are issued in lieu of the whole or any part of a specifically declared cash Dividend or (2) where the Shareholders may elect to receive a cash Dividend in lieu of Shares, in which case (ii)(b) applies) (the “**Relevant Cash Dividend**”), being a Dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Capital Distribution (a “**Scrip Dividend**”), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

- (b) In the case of an issue of Shares by way of a Scrip Dividend where the aggregate Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue of such Shares multiplied by the number of such Shares to be issued, exceeds the amount of the Relevant Cash Dividend or the relevant part thereof, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such Scrip Dividend;

B is the number of Shares which the Relevant Cash Dividend would purchase at such Current Market Price; and

C is the number of Shares to be issued pursuant to such Scrip Dividend.

Such adjustment shall become effective on the date of issue of such Shares or if the number of such Shares is fixed on announcement and a record date is fixed therefor, on such record date.

- (iii) *Capital Distribution:* If and whenever the Issuer shall pay or make any Capital Distribution to the Shareholders (except where the Conversion Price falls to be adjusted under (ii) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Capital Distribution by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which the Capital Distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the Capital Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Capital Distribution is made or if a record date is fixed therefor, immediately after such record date.

For the avoidance of doubt, Capital Distribution excludes all cash distributions paid to the Shareholders.

- (iv) *Rights Issues of Shares or Options over Shares:* If and whenever the Issuer shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, of options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 95% of the Current Market Price per Share on the last Trading Day preceding the date of the announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants (as the case may be).

- (v) *Rights Issues of Other Securities:* If and whenever the Issuer shall issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class, by way of rights, or the issue or grant to all or substantially all Shareholders as a class by way of rights, of any options, warrants or other rights to subscribe for or purchase or otherwise acquire, any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A-B}{A}$$

where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants (as the case may be).

- (vi) *Issues at less than Current Market Price:* If and whenever the Issuer shall issue (otherwise than as mentioned in (iv) above) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of the options granted by the Issuer pursuant to its employee share option schemes, or any other rights of conversion into, or exchange or subscription for, Shares) or the issue or grant of (otherwise than as mentioned in (iv) above and other than the options granted by the Issuer pursuant to its employee share option schemes) options, warrants or other rights to subscribe or purchase Shares in each case at a price per Share which is less than 95% of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for or purchase any Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable by the Issuer for such additional Shares to be issued or otherwise made available or, as the case may be, upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Share; and
- C is the maximum number of additional Shares issued or the maximum number of Shares that may be issued upon exercise of such options, warrants or rights.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Issuer of options, warrants or other rights to subscribe for or purchase Shares, mean such Shares to be issued, or otherwise made available, assuming that such options, warrants or other rights are exercised in full at the initial exercise price (if applicable) on the date of issue or grant of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of such options, warrants or other rights.

- (vii) *Other Issues at less than Current Market Price:* Save in the case of an issue of securities arising from a conversion or exchange of other existing securities in accordance with the terms applicable to such existing securities themselves falling within the provisions of this (vii), if and whenever the Issuer or any member of the Relevant Group (otherwise than as mentioned in (iv), (v) or (vi) above) or (at the direction or request of or pursuant to any arrangements with the Issuer or any member of the Relevant Group) any other company, person or entity (otherwise than as mentioned in (iv), (v) or (vi) above) shall issue any securities (other than the Bonds and the options granted by the Issuer pursuant to its employee share option schemes) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for or purchase of, or to otherwise acquire, Shares issued or to be issued by the Issuer or securities which by their terms may be redesignated Shares receivable upon conversion, exchange, subscription or redesignation at a consideration per Share which is less than 95% of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Shares in issue immediately before such issue or grant (but where the relevant securities carry rights of conversion into, or rights of exchange or subscription for, or purchase or acquisition of, Shares which have been issued by the Issuer for the purpose of, or in connection with, such issue, less the number of Shares so issued);
- B is the number of Shares which the aggregate consideration (if any) receivable by the Issuer for the Shares to be issued or otherwise made available upon conversion or exchange or on exercise of the right of subscription or purchase or acquisition attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued or otherwise made available upon conversion or exchange of such securities or on the exercise of such rights of subscription or purchase or acquisition attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Shares to be issued or to arise or to be made available from any such redesignation.

Such adjustment shall become effective on the date of issue of such securities.

- (viii) *Modification of Rights of Conversion, etc.:* If and whenever there is any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such securities as are mentioned in (vii) above (other than in accordance with the existing terms applicable to such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 95% of the Current Market Price on the last Trading Day preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Shares in issue immediately before such modification (but where the relevant securities carry rights of conversion into, or rights of exchange or subscription for, or purchase or acquisition of, Shares which have been issued by the Issuer for the purpose of, or in connection with, such issue, less the number of Shares so issued);
- B is the number of Shares which the aggregate consideration (if any) receivable by the Issuer for the Shares to be issued, or otherwise made available, on conversion or exchange or on exercise of the right of subscription, purchase or acquisition attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange, subscription or purchase price of such securities; and
- C is the maximum number of Shares to be issued, or otherwise made available, on conversion or exchange of such securities or on the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription or purchase price or rate but giving credit in such manner as two leading investment banks of international repute (acting as experts), selected by the Issuer and approved by the Bondholders, consider appropriate (if at all) for any previous adjustment under this (viii) or (vii) above.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such securities.

Other Offers to Shareholders: If and whenever the Issuer or any member of the Relevant Group or (at the direction or request of or pursuant to any arrangements with the Issuer or any member of the Relevant Group) any other company, person or entity issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally (meaning for these purposes the holders of at least 50% of the Shares outstanding at the time such offer is made) are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under (iv), (v), (vi) or (vii) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue, sale or distribution by the following fraction:

$$\frac{A-B}{A}$$

where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or distribution of the securities.

- (ix) *Other Events*: If the Issuer determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in any other provisions of this anti-dilution adjustment provision which in either case have or would have an effect on the position of the Bondholders as a class compared with the position of the holders of all the securities (and options, rights and warrants relating thereto) of the Issuer, taken as a class, which is analogous to any of the events referred to in (i) to (ix) (including any demerger, spin-off or similar arrangement in respect of any business of the Issuer and the Relevant Group), then, in any such case, the Issuer shall at its own expense request two leading investment banks of international repute (acting as experts), selected by the Issuer and approved by the Bondholders, to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination provided that where the circumstances giving rise to any adjustment pursuant to this anti-dilution adjustment provision have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this anti-dilution adjustment provision as may be advised by two leading investment banks of international repute (acting as experts), selected by the Issuer and approved by the Bondholders, to be in their opinion appropriate to give the intended result.

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 Group. 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. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Name of the company	Capacity and nature of interests	Number of shares and underlying shares held (Note 1)	Approximately percentage of shareholding as at the Latest Practicable Date (%)
Shum Sai Chit	The Company	Number of options held	30,000,000	0.46
	Century Sunshine	Beneficial owner	14,666,305 (L)	0.32
	Century Sunshine	Number of options held	20,000,000	0.44
Kwong Ping Man	The Company	Number of options held	5,000,000	0.08
Cheung Sound Poon	The Company	Number of options held	5,000,000	0.08
	Century Sunshine	Number of options held	5,000,000	0.11
Kwan Ngai Kit	The Company	Family interests (Number of options held) (Note 2)	5,000,000	0.09
	Century Sunshine	Number of options held	4,000,000	0.08

Notes:

1. The letter “L” denotes long positions in the Shares, underlying Shares and share capital of the Company.
2. Such share options in respect of 4,000,000 shares of Century Sunshine were granted to Mr. Kwan Ngai Kit’s spouse.

Save as disclosed above, to the best knowledge of the Directors as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Disclosure of interests of substantial shareholders of the Company

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying Shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Name	Capacity and nature of Interests	Number of Shares and underlying Shares held <i>(Note 1)</i>	Approximately percentage of shareholding as at the Latest Practicable Date <i>(%)</i>
Ming Xin	Beneficial owner <i>(Notes 2 & 3)</i>	4,761,117,434(L) 200,000,000(S)	72.31 3.04
New Bright Group Limited	Interest in a controlled corporation <i>(Notes 3 & 4)</i>	4,761,117,434(L) 200,000,000(S)	72.31 3.04
Century Sunshine	Interest in a controlled corporation <i>(Notes 3 & 5)</i>	4,761,117,434(L) 200,000,000(S)	72.31 3.04
Chi Wen Fu	Interest in a controlled corporation) <i>(Notes 3 & 6)</i>	4,761,117,434(L) 200,000,000(S)	72.31 3.04

Notes:

1. The letters “L” and “S” denote long position and short position in the Shares, underlying Shares and share capital of the Company respectively.
2. 4,761,117,434 Shares are beneficially owned by Ming Xin.
3. On 13 December 2019, both Century Sunshine and Ming Xin as grantors and Mega Prime Development Limited as optionee entered into a call option agreement, pursuant to which the said grantors agreed to grant to the said optionee the right and option to acquire 200,000,000 Shares.
4. Ming Xin is a wholly-owned subsidiary of New Bright Group Limited. As such, New Bright Group Limited is deemed to be interested in all the Shares in which Ming Xin is interested by virtue of the SFO.
5. New Bright Group Limited is a wholly-owned subsidiary of Century Sunshine. As such, Century Sunshine is deemed to be interested in all the shares in which Ming Xin is interested by virtue of the SFO.
6. Mr. Chi Wen Fu controls more than one-third or more of the voting power at general meetings of Century Sunshine (the ultimate holding company of Ming Xin). As such, Mr. Chi Wen Fu is deemed to be interested in all the Shares in which Ming Xin is interested by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, no person (other than the Directors or the chief executive of the Company) had the interests or short positions in the Shares or underlying Shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

4. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had, or was proposed to have, a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. LITIGATION

As at the Latest Practicable Date, the Company had the following litigations:

- (i) the Bermuda Petition
- (ii) the Hong Kong Petition; and
- (iii) On 2 June 2021, a bank in the PRC (the “**PRC Bank**”) filed a writ of summons and statement of claim to a court in the PRC against Baishan Tianan, a subsidiary of the Company in the PRC for an immediate repayment of all outstanding principal and interest of a loan granted by the PRC Bank (the “**PRC Loan**”), in the sum of approximately RMB64.3 million (together with any default interest thereon and related costs), resulting from the alleged non-compliance with the terms and conditions of the PRC Loan.

On 16 March 2022, Baishan Tianan received a notice for enforcement (執行通知書) dated 11 March 2022 from Jilin Province Baishan City Intermediate People's Court (吉林省白山市中級人民法院) regarding (i) the freezing of 1 plots of land, 14 properties and the exploration right of the Baishan Mine owned by Baishan Tianan in relation to the Baishan Claims for three years up to 10 March 2025, pursuant to which Baishan Tianan cannot transfer or dispose of the Frozen Assets during the Frozen Period; and (ii) the freezing of a deposit of RMB64,363,134 in the 20 bank accounts of Baishan Tianan in the PRC for one year up to 10 March 2023 (the “**Freezing Order**”).

Baishan Tianan is in negotiation with the PRC Bank, including but not limited to the possibility of entering into a new loan agreement to resolve the alleged non-compliance issues, in order to have the Freezing Order released as soon as possible. The Company is of view that, based on the review of the business operation of Baishan Tianan and the funding available for its operations, the Freezing Order does not have material impact on the day-to-day operations of Baishan Tianan.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors were aware of, none of the members of the Group was involved in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, the date to which the latest published audited financial statements of the Group were made up.

8. EXPERT AND CONSENT

The following is the qualification of the expert who have given opinion or advice which is contained in this circular:

Gram Capital Limited a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

The above expert has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice, opinion and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert did not have any shareholding 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.

As at the Latest Practicable Date, the above expert did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Company 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 leased to any member of the Group.

9. GENERAL

- (i) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (ii) The head office and principal place of business of the Company in Hong Kong is at 16th Floor, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong.
- (iii) The company secretary of the Company is Mr. Fan Kwok Man, Raymond, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (iv) The Company's branch share registrar and transfer office in Hong Kong is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

- (v) This circular has been prepared in both English and Chinese. In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (i) the written consent referred to in the paragraph headed “Expert and Consent” in this appendix; and
- (ii) this circular.

NOTICE OF SGM



稀鎂科技
REMT

稀鎂科技集團控股有限公司

RARE EARTH MAGNESIUM TECHNOLOGY GROUP HOLDINGS LIMITED

(in provisional liquidation)

(for restructuring purposes only)

(Incorporated in Bermuda with limited liability)

(Stock Code: 601)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Rare Earth Magnesium Technology Group Holdings Limited (the “**Company**”) will be held on Wednesday 25 May 2022 at 2:30 p.m. at 16th Floor, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions:

Capitalised terms used in this notice shall have the same meaning of those defined in the circular of the Company dated 3 May 2022 to the Shareholders (the “**Circular**”) unless otherwise specified.

SPECIAL RESOLUTION

1. “**THAT**, subject to (i) passing of the ordinary resolution numbered 2 below; (ii) the granting by the Listing Committee of The Stock Exchange of the listing, and permission to deal in, the New Shares; and (iii) the compliance by the Company with the relevant procedures and requirements under the Companies Act 1981 of Bermuda to effect the Capital Reduction and the Rules Governing the Listing of Securities on the Stock Exchange to effect the Capital Reorganisation and, with effect from the second business day immediately following the date on the conditions of the Capital Reorganisation are fulfilled:
 - (i) the issued share capital of the Company be reduced by cancelling the paid up capital to the extent of HK\$1.99 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK\$2.00 to HK\$0.01;

NOTICE OF SGM

- (ii) immediately following the Capital Reduction, each of the authorised but unissued Consolidated Shares with par value of HK\$2.00 each be sub-divided into two hundred (200) new ordinary shares of par value HK\$0.01 each;
- (iii) all credits arising as a result of the Capital Reduction be transferred to the contributed surplus account of the Company for use by the Directors in any manner permitted by the Companies Act 1981 of Bermuda and the bye-laws of the Company; and
- (iv) any one director of the Company be and is hereby authorised to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to this resolution and the transactions contemplated thereunder.”

ORDINARY RESOLUTIONS

- 2. “**THAT**, subject to (i) the Listing Committee of The Stock Exchange granting the listing of, and permission to deal in, the New Shares; and (ii) the compliance with the relevant procedures and requirements under the Rules Governing the Listing of Securities on the Stock Exchange to effect the Capital Reorganisation, with effect from the second business day (as defined in the bye-laws of the Company) immediately following the date on the conditions of the Capital Reorganisation are fulfilled, every twenty (20) issued and unissued ordinary share(s) of par value HK\$0.10 each in the share capital of the Company be consolidated into one (1) ordinary share(s) of par value HK\$2.00 each in the share capital of the Company.”
- 3. “**THAT**, subject to the applicable laws of Hong Kong and the directions and sanctions of the Hong Kong Court, the approval of the Scheme Creditors and to all the other resolutions set out in this notice being passed:
 - (i) the Creditors’ Scheme material particular whereof are disclosed in the scheme of arrangement document of the Company dated 18 January 2022 (as amended and supplemented) and despatched to the creditors of the Company (details of the majority terms of the Creditors’ Scheme are set out in the section headed “Letter from the Board – The Creditors’ Scheme” in the circular of the Company dated 3 May 2022), which are to be proposed and effected as a scheme under Part 13 of the Companies Ordinance, be and are hereby approved, subject to any modification thereof or addition thereof approved or imposed by the Hong Kong Court (if any); and

NOTICE OF SGM

- (ii) subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Scheme Shares and the Conversion Shares, with immediate effect after the conditions precedent to the Creditors' Scheme are fulfilled:
- (a) the transactions contemplated under the Creditors' Scheme in connection with the issue of the Scheme Shares and the Convertible Bonds be and are hereby approved;
- (b) the Directors be and are hereby granted a Specific Mandate to allot and issue, pursuant to the Creditors' Scheme, of the Scheme Shares to the Scheme Company and of the Conversion Shares upon conversion of the Convertible Bonds be and are hereby approved.”
4. “**THAT**, any one director of the Company be and is hereby authorised to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to foregoing resolutions and the transactions contemplated thereunder.”

By order of the Board
Rare Earth Magnesium Technology Group Holdings Limited
(in provisional liquidation)
(for restructuring purposes only)
Shum Sai Chit
Chairman

Hong Kong, 3 May 2022

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:

16th Floor, Tower 5
The Gateway
Harbour City
Tsim Sha Tsui, Kowloon
Hong Kong

NOTICE OF SGM

Notes:

1. A member of the Company entitled to attend and vote at the SGM convened by the above notice is entitled to appoint another person as his proxy to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company but must attend the SGM to represent the member.
2. In order to be valid, the form of proxy must be deposited with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong together with any power of attorney or other authority, under which it is signed, or a certified copy of that power or authority, not less than 48 hours before the (i.e. no later than 2:30 p.m. on Monday, 23 May 2022) the time for holding the SGM or any adjournment thereof.
3. In the case of joint holders of any shares in the Company, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holders.
4. For the purpose of determining the eligibility of the shareholders of the Company to attend and vote at the SGM, the register of members of the Company will be closed from Friday, 20 May 2022 to Wednesday, 25 May 2022, both days inclusive, during this period no transfer of Shares will be registered. In order to qualify for attending and voting at the SGM, all share transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 19 May 2022, for registration.
5. If "extreme conditions" caused by super typhoons, typhoon signal No. 8 or above, or a black rainstorm warning is in effect at 7:30 a.m. on the date of the SGM, the meeting will be postponed. The Company will post an announcement on its website (www.remt.com.hk) and designated website of the Stock Exchange (www.hkexnews.hk) to notify Shareholders of the date, time and place of the rescheduled meeting.
6. Taking into account of the recent development of the epidemic caused by Coronavirus Disease ("COVID-19"), the Company will implement the following prevention and control measures at the meeting against the epidemic to protect the Shareholders from the risk of infection:
 - (i) Temperature measurement will be conducted for every Shareholder or proxy before allowing them to enter the building. Any person with fever will be prohibited from entering into the venue;
 - (ii) Every Shareholder or proxy is required to wear surgical facial mask throughout the meeting;
 - (iii) No refreshment will be served; and
 - (iv) there will be alternative seating so that social distancing seating plans will be implemented.

Furthermore, the Company wishes to advise the Shareholders, particularly the Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the meeting as a proxy to vote on the resolutions, instead of attending the meeting in person.

NOTICE OF SGM

As at the date of this notice, the directors of the Company are:

Executive directors: Mr. Shum Sai Chit (*Chairman*) and Ms. Chi Sile

Independent non-executive directors: Mr. Kwong Ping Man, Mr. Cheung Sound Poon and
Mr. Kwan Ngai Kit