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CHINA ASIA VALLEY GROUP LIMITED

中亞烯谷集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 63)

DISPOSAL OF DISPOSAL COMPANY

On 6 July 2022 (after trading hours), the Company as vendor entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Company has agreed to sell, and the Purchaser has agreed to purchase the Sale Shares (representing all the issued shares of the Disposal Company) at the total Consideration of HK\$10,000.

The Disposal does not constitute a transaction of the Company under Chapter 14 of the Listing Rules.

INTRODUCTION

References are made to the annual reports of the Company for the years ended 31 December 2018, 2019, 2020 and 2021, respectively, in relation to the qualified opinions issued by the auditor of the Company, ZHONGHUI ANDA CPA Limited (the “**Auditor**”), whereby the Auditor expressed, among others, that there were insufficient accounting documents relating to the business and financial operations of, inter alia, the Company’s subsidiaries in Japan, namely WI Capital and WI Graphene.

THE DISPOSAL

The Board announces that on 6 July 2022 (after trading hours), the Company as vendor and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Company has agreed to sell, and the Purchaser has agreed to purchase the Sale Shares (representing all the issued shares of the Disposal Company) at the total Consideration of HK\$10,000.

Date

6 July 2022

Parties

- (1) Vendor : The Company
- (2) Purchaser : Yao Shi Li Capital Hongkong Co., Limited

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Assets to be disposed

Pursuant to the Sale and Purchase Agreement, the Purchaser has agreed to purchase and the Company has agreed to sell the Sale Shares, representing all the issued shares of the Disposal Company as at the date of this announcement.

Pursuant to the Sale and Purchase Agreement, the Company has not provided any representation or warranty to the Purchaser in relation to, and has expressly disclaimed any liability whatsoever from any loss howsoever arising from, the assets, liabilities, business and valid existence of the Disposal Group. As such, the Company would not incur any additional liability in relation to the assets, liabilities and business of the Disposal Group following Completion.

Consideration

The total Consideration for the purchase of the Sale Shares is HK\$10,000, payable by the Purchaser to the Company on the Completion Date.

The Consideration was arrived at after arm's length negotiations between the Company and the Purchaser with reference to, among other things: (i) the loss-making performance of the Disposal Group for the year ended 31 December 2017; (ii) no revenue having been

contributed by the Disposal Group since 1 January 2018 as the Group has not been able to exercise control over the operations of the Disposal Group; (iii) the Group's inability to access the complete books and records of the Disposal Group rendering the Directors unable to form an informed overall assessment on the assets, liabilities, business and operations of the Disposal Group; (iv) the risk of potential liabilities not known to the Group arising from the loss of books and records; (v) the Disposal Group is considered distressed assets of the Group; (vi) the loss of control over and access of the books and records have put the Group in an extremely difficult position to identify potential buyers for valuable consideration in respect of the Disposal Group; and (vii) the Post-completion Undertakings given by the Purchaser under the Sale and Purchase Agreement.

In view of the foregoing, the Directors (including the independent non-executive Directors) consider that the Consideration is on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Post-completion Undertakings

With effect from Completion, the Purchaser agrees and undertakes to the Company that (the **"Post-completion Undertakings"**):

- (a) if the Purchaser (or its nominee) enters into any agreement, arrangement or assignment with any third party for the sale or transfer of all or part of the Sale Shares or any of the economic interests in or any assets of the Disposal Company or its subsidiaries on or before the date falling three (3) years from the Completion Date, the Purchaser agrees to pay to a designated bank account of the Company, within five business days upon receipt of the proceeds from such sale or transfer by the Purchaser (or its nominee), net of all reasonable costs and expenses incurred (including legal expenses, accounts expenses and other expenses) and paid by the Purchaser (the **"Proceeds"**), a sum equivalent to 80% of such Proceeds.
- (b) the Purchaser (or its nominee) shall use its best effort to sell or transfer all of the Sale Shares or the economic interests in or all of the assets of the Disposal Company and its subsidiaries at a reasonable consideration, on normal commercial terms, based on arm's length negotiation, to third party(ies) independent of and not connected with the Purchaser on or before the date falling three (3) years after the Completion Date;
- (c) the Purchaser shall or shall procure its nominee to use its best endeavours to assist the Company in connection with the provision all information and documents relating to the Disposal Company and its subsidiaries required pursuant to the internal corporate governance policy of the Company, the Listing Rules and other applicable rules, codes and regulations;
- (d) the Purchaser shall or shall procure its nominee to cooperate in good faith with the Company in any enquiries conducted by the Stock Exchange and other relevant

regulatory authorities, including answering promptly and openly any questions relating to the Disposal Company and its subsidiaries and potential purchaser(s) of all or part of the Sale Shares or any of the economic interests in or any assets of the Disposal Company and its subsidiaries, promptly producing any documents and attending any meeting at the request of the Company;

- (e) the Purchaser shall or shall procure its nominee to report to the Company in a meeting, via telephone conference, via facsimile or via email within five business days after the end of each quarter:
 - (i) the progress of any agreement, arrangement or assignment with any third party for the sale or transfer of all or part of the Sale Shares or any of the economic interests in or any assets of the Disposal Company and its subsidiaries; and
 - (ii) the progress of any administration, management, receivership, liquidation, winding up or other similar proceedings in relation to the Disposal Company and its subsidiaries; and
- (f) except for the purpose of (a) and (b) above, the Purchaser will not directly or indirectly dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Sale Shares or any of the economic interests in or any assets of the Disposal Company or its subsidiaries. In no circumstance shall the Purchaser allow the value of the recoverable Proceeds to dissipate or diminish due to any actions or omissions of the Purchaser.

The Post-completion Undertakings shall survive Completion and be effective from Completion.

Conditions precedent

Completion shall be conditional upon:

- (a) (If required) The approval by the Shareholders of the Sale and Purchase Agreement and the transactions contemplated thereunder at a general meeting of the Company to be convened in accordance with, and all other consents and acts required under, the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange;
- (b) The compliance with any other requirements under the Listing Rules or otherwise of the Stock Exchange or other regulatory authorities or any applicable laws and regulations which requires compliance at any time on or prior to Completion; and
- (c) (If required) All requisite waivers, consents and approvals from any relevant governmental authority or regulatory authorities or other relevant third parties, in

connection with the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained.

For the avoidance of doubt, none of the conditions precedent above are waivable by either the Company or the Purchaser.

Completion

Conditional on the fulfilment of all conditions precedent, Completion shall take place on the Completion Date at such location or by such means as the parties may agree.

Immediately after Completion, the Company will cease to hold any interest in the Disposal Group.

It is the Company's Japanese legal adviser's view that the execution and performance of the Disposal is consistent with, if any, any limitation, condition and requirement under the articles of incorporation of the Disposal Company or Japanese laws and regulations. There is no governmental approval, permission, registration, notification nor report required for the Disposal under Japanese laws.

INFORMATION OF THE DISPOSAL GROUP

The Disposal Company is an investment holding company incorporated in Japan with limited liability on 4 January 2016. As shown in the 2017 Annual Report of the Company, the Disposal Company held the 80% equity interest in the WI Graphene, a company which is principally engaged in manufacturing and sale of graphene and graphene-related products.

As the Company no longer had the power to govern the financial and operating policies of WI Capital and WI Graphene and the control over them was lost on 31 December 2021, the Company deconsolidated the Disposal Group from its consolidated financial statements since 31 December 2021.

As stated in the Company's annual report for the year ended 31 December 2017, the major assets held by the Disposal Group as at 31 December 2017 were prepayment for property, plant and equipment and cash and cash equivalents, and the major liabilities of the Disposal Group as at 31 December 2017 were trade and other payables.

Set forth below is a summary of the financial results of the Disposal Group in the consolidated financial statements of the Group for the years ended 31 December 2017, 2018, 2019 and 2020, respectively:

	For the year ended 31 December			
	2020	2019	2018	2017
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
	<i>(Note)</i>	<i>(Note)</i>	<i>(Note)</i>	
Revenue	-	-	432	63
Loss before tax	(2,227)	(2,263)	(68,524)	(16,852)
Loss after tax	(2,227)	(2,263)	(68,524)	(16,852)

Note: The Auditor of the Company had given a qualified opinion to the consolidated financial statements of the Group for each of the years ended 31 December 2018, 2019 and 2020. Please refer to the annual reports of the Company for the years ended 31 December 2018, 2019 and 2020 for details.

The Company was unable to access to the financial, legal and administration records of the Disposal Group for the years ended 31 December 2018, 2019 and 2020. Therefore, no revenue was recorded to have been generated from the Disposal Group for the years ended 31 December 2018, 2019 and 2020.

The net liabilities of the Disposal Company and its subsidiary as at 31 December 2020 amounted to approximately HK\$5,692,000 based on its unaudited financial statements (which were qualified by the Auditors of the Company in the 2020 Annual Report).

FINANCIAL IMPACT OF THE DISPOSAL

It is estimated that the Company will recognise an unaudited loss on the Disposal upon Completion of approximately HK\$55,000 for the year ending 31 December 2022.

The above financial impact is shown for illustrative purpose only and the actual gain or loss as a result of the Disposal to be recorded by the Company is subject to review by the auditors of the Group and will be assessed after Completion.

The Directors (including the independent non-executive Directors) consider that there will be no material adverse impact to the financial position and business operations of the Group as a whole as a result of the Disposal.

INFORMATION ON THE PARTIES

Information on the Company and the Group

The principal activity of the Company is investment holding. The Group is principally engaged in (i) property investment; (ii) the provision of horticultural services and sales of plants; and (iii) property management services. The Company owns 100% of Sale Shares.

Information on the Purchaser

The Purchaser is a company incorporated in Hong Kong, and as advised by the Purchaser, it is principally engaged in the provision of corporate finance services. The Purchaser has extensive experience in the financial market. It is accustomed to conducting investments in a wide variety of assets and targets under various structures and circumstance. It is one of the business activities of the Purchaser to deal with distressed assets. The Purchaser has its own strategy and resources as well as relevant network and connections with respect to the handling of distressed assets.

REASONS FOR AND BENEFITS OF THE DISPOSAL

As disclosed in the annual report of the Company for the year ended 31 December 2021, the Board concluded that despite the fact that all steps considered to be reasonable by the management have been taken, the Company no longer had the power to govern the financial and operating policies of WI Capital and WI Graphene, and the control over them was lost on 31 December 2021.

The former management had contacted the directors of WI Capital and WI Graphene in 2019 to obtain the accounting documents relating to the business and financial operations for the annual audit. However, the directors of these subsidiaries refused to cooperate and provide the documents for audit and management control purposes.

Upon the appointment of the new management of the Company in September 2019, the new management has since then made various attempts to retrieve the books and records of and assert control over the Disposal Group, including but not limited to the following actions: (i) appointed consultants (including legal representatives) and representatives of the Company in Japan for obtaining necessary documents and negotiation with the directors of these subsidiaries to collect the necessary documents for audit purposes and to exercise the control over these two subsidiaries; (ii) took actions to appoint its nominee to be the director of WI Capital, which was in vain due to the refusal of the legal representative of WI Capital in Japan to return the common seal; (iii) sought legal advice from its legal advisers and reported to both the Japan Police and Hong Kong Police in respect of a suspected unauthorised transfer of equity interest in WI Graphene, but no action was taken by the police forces due to the limited information available for investigation; (iv) repeatedly and persistently made verbal and written requests to the directors of WI Capital and WI

Graphene demanding the provision of books of accounts to such companies for the preparation of its consolidated financial statements of the Group; and (v) on multiple occasions engaged or consulted external advisers in respect of the resolution of the issues pertaining to the Disposal Group, including but not limited to the exploration, discussion and commencement of initial work including but not limited to further negotiation, disposal, liquidation and legal actions.

The Company has engaged an independent internal control adviser to review and comment on the internal control system, risk management and financial reporting of the Group. The audit committee and the Board has reviewed the reports prepared by the internal control adviser and has implemented the recommendations as appropriate with a view to improving the Company's risk management and internal control systems.

Given the situation described above, the Board is of its view that the Company does not have the necessary books of records to prepare accurate and complete financial statements for WI Capital and WI Graphene. The Company therefore deconsolidated the Disposal Group from its consolidated financial statements since 31 December 2021. As such, the assets and liabilities of the Disposal Group as at 31 December 2021 have not been included into the consolidated financial statements of the Group as at that date.

As a result of the situation mentioned above, the Company could not exercise control over WI Capital and WI Graphene due to the persistent uncooperative behaviour of the directors of those entities. No sufficient evidence has been provided to the Auditor to satisfy themselves as to whether the Company had lost control of those subsidiaries on 31 December 2021. The management of the Company had consulted the Auditors and was given to understand that if the Disposal of the Disposal Company had completed on or before 31 December 2022 as expected, audit qualification would be on the comparative figures in 2021 on the consolidated financial statements for the year ended 31 December 2022 and the profits or loss figures for the year ended 31 December 2022 and would not have any impact on the consolidated statement of financial position as at 31 December 2022.

Given the substantive time and cost spent as well as efforts exhausted by the management of the Group to resolve the inability to access the books and records of the Disposal Group, the Directors consider that it is in the interests of the Company to dispose of the Disposal Group to a distressed assets buyer who possesses the relevant expertise and means. The Purchaser has given the Post-completion Undertakings to the Company such that the Company would be able to recover the value in the Disposal Group or its assets, if any value can be realized within a reasonable period of time.

The Directors consider the Disposal provides a good opportunity for the Group to realise its investment in the Disposal Group, to address the issue arising from the qualified opinion in the financial statements of the coming financial years, and to focus its resources to develop the business of the Group for the benefit of the Company. The Directors further consider that the Disposal will save resources, efforts and time for the management of the Group to

explore on and deal with new businesses and customers, and that the Disposal is a realistic choice and will provide an opportunity for the Group to obtain further proceeds in the event of the sale of the Sale Shares or the economic interests in any assets of the Disposal Group by the Purchaser.

The Directors (including the independent non-executive Directors) consider that entering into the Sale and Purchase Agreement and the terms of the Disposal, including the Consideration, are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

IMPLICATION UNDER THE LISTING RULES

The Disposal does not constitute a transaction of the Company under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Board”	the board of Directors
“Company”	China Asia Valley Group Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 63)
“Completion”	completion of the Disposal pursuant to the Sale and Purchase Agreement
“Completion Date”	the second (2 nd) business day after the fulfilment of all conditions precedents, or such other date as may be agreed by the Company and the Purchaser
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Consideration”	the total consideration of HK\$10,000 payable for the Sale Shares pursuant to the Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares by the Company to the Purchaser pursuant to the terms and conditions of the Sale

	and Purchase Agreement
“Disposal Company” or “WI Capital”	WI Capital Co. Limited, a company incorporated in Japan, the shares of which are held at to 100% by the Company
“Disposal Group”	the Disposal Company and its subsidiaries
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Purchaser”	Yao Shi Li Capital Hongkong Co., Limited, a company incorporated in Hong Kong with limited liability
“Sales and Purchase Agreement”	the sale and purchase agreement dated 6 July 2022 entered into between the Purchaser and Company as vendor in relation to the Disposal
“Sale Shares”	80,000 shares of the Disposal Company, representing all the issued shares of the Disposal Company
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“WI Graphene”	WI Graphene Co., Limited, a company incorporated in Japan and whose shares are held as to 80% by WI Capital
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By order of the Board of
China Asia Valley Group Limited
Huang Binghuang
Chairman and Chief Executive Officer

Hong Kong, 6 July 2022

As at the date of this announcement, the Board consists of Mr. Huang Binghuang (Chairman and Chief Executive Officer) and Ms. Xia Ping as executive Directors; Ms. Wang Lijiao as a non-executive Director; and Mr. Tso Sze Wai, Mr. Wang Rongfang and Mr. Duan Rihuang as independent non-executive Directors.