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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)

**(1) VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION
IN RELATION TO THE TENANCY AGREEMENT;
AND
(2) PROPOSED ISSUE OF CONVERTIBLE BOND UNDER
SPECIFIC MANDATE**

Financial Adviser



TENANCY AGREEMENT

On 6 June 2023, the PRC Subsidiary, a wholly-owned subsidiary of the Company (as tenant), and China Asia Electronic (as landlord), entered into the Tenancy Agreement for an aggregate area of 350,855 square-metres in the Silicon Valley Industrial Park for a total rent of approximately RMB1,413.4 million (equivalent to approximately HK\$1,590.1 million).

Pursuant to the Tenancy Agreement, the PRC Subsidiary agrees to pay a Deposit of approximately RMB282.6 million (equivalent to approximately HK\$318.0 million, being 20% of the total rent payable under the Tenancy Agreement, to China Asia

Electronic upon signing the Tenancy Agreement.

SUBSCRIPTION AGREEMENT

As disclosed in the audited financial report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”), the Group recorded net current liabilities of approximately HK\$216,066,000 as at 31 December 2022. The payment of the Deposit is expected to put significant pressure on the Company. Accordingly, the Directors are of the view that the Group should fund the Deposit through entering into the Subscription Agreement.

On 6 June 2023 (after trading hours), the Company entered into the Subscription Agreement with the Subscribers, pursuant to which the Subscribers have conditionally agreed to subscribe, and the Company has conditionally agreed to issue the Convertible Bond in the aggregate principal amount of HK\$353,360,000.

The Conversion Shares will be issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM. The Subscription is conditional upon, among others, the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Conversion Shares and the passing of necessary resolution(s) by the Independent Shareholders at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

LISTING RULES IMPLICATIONS

Tenancy Agreement

Pursuant to HKFRS 16, as a result of entering into the Tenancy Agreement, the Group will recognise a right-of-use asset in its consolidated financial statements in connection with the lease of the premises under the Tenancy Agreement. Therefore, the entering into of the Tenancy Agreement will be regarded as an acquisition of assets by the Group under the definition of transaction set out in Rule 14.04(1)(a) of the Listing Rules.

As disclosed above, China Asia Electronic is held as to 60% by China Asia Real Estate Group Co., Ltd.* (中亞置業集團有限公司), which is ultimately held as to 87.3% by Mr. Huang and 12.7% by Mr. Huang Binghua, respectively.

As at the date of this announcement, Mr. Huang is a controlling shareholder of the Company who is deemed to be interested in 74.93% of the Shares. Accordingly, Mr. Huang is a connected person of the Company under Chapter 14A of the Listing Rules.

Meanwhile, given that Mr. Huang Binghua is the brother of Mr. Huang, he is deemed

to be a connected person of the Company under Chapter 14A of the Listing Rules.

The remaining 40% of equity in China Asia Electronic is held by SZ Xinghuo Chuangke, which is ultimately held as to 90% by Mr. Liu Zeqiang and 10% by Mr. Li Jun, respectively. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Liu Zeqiang and Mr. Li Jun are third parties independent of and not connected with the Company and its connected persons.

As one or more of the applicable percentage ratios in respect of the value of the right-of-use asset to be recognised by the Group in connection with the Tenancy Agreement according to HKFRS 16 "Leases" is more than 100%, the Tenancy Agreement and the transaction contemplated thereunder constitutes a very substantial acquisition of the Company and a connected transaction of the Company, and are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Upon consultation with the Stock Exchange, based on the submission of the Company, the Stock Exchange has confirmed that the Tenancy Agreement would constitute a very substantial acquisition and connected transaction of the Company and would not be regarded as a reverse takeover under Rule 14.06B of the Listing Rules.

Subscription Agreement

Given that Mr. Huang, being one of the Subscribers, is a connected person of the Company under Chapter 14A of the Listing Rules, the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate) constitute a connected transaction of the Company and is subject to reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Huang is a Subscriber and controls China Asia Electronic, he is considered to be materially interested in and has therefore abstained from voting on the resolutions of the Board to approve (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate).

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all the independent non-executive Directors will be formed in accordance with Chapter 14A of the Listing Rules to

advise the Independent Shareholders on (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate).

INDEPENDENT FINANCIAL ADVISER

An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate).

EGM

An EGM will be convened for the purpose of considering and, if thought fit, approving the (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate).

As at the date of this announcement, Mr. Huang is a controlling shareholding of the Company who is deemed to be interested in 74.93% of the issued share capital of the Company. As Mr. Huang is a Subscriber and controls China Asia Electronic, he is considered to be materially interested in and is (together with his associates) required to abstain from voting on the resolutions to approve (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate) at the EGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, no Shareholders are required to abstain from voting on the resolutions to approve (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate) at the EGM.

A circular containing, among others, (i) further details of the Tenancy Agreement and the Subscription Agreement, including the issue of the Convertible Bond and the Conversion Shares under the Specific Mandate; (ii) a letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Tenancy Agreement and the Subscription Agreement; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the

Independent Shareholders in respect of the Tenancy Agreement and the Subscription Agreement; (iv) a notice of the EGM; and (v) other information in relation to the Company as required under the Listing Rules, will be despatched to the Shareholders on or before 31 July 2023, as additional time is needed for the preparation of the certain relevant information for inclusion in the circular.

The Tenancy Completion and Subscription Completion are subject to the fulfillment or waiver of their respective conditions precedent as set out in this announcement. As the transactions under the Tenancy Agreement and the Subscription Agreement may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. If they are in any doubt, they should consult their professional advisers.

TENANCY AGREEMENT

Principal terms

On 6 June 2023, the PRC Subsidiary (as tenant) and China Asia Electronic (as landlord) entered into the Tenancy Agreement in respect of the sub-lease of an aggregate area of 350,855 square-metres in the Silicon Valley Industrial Park, the major terms of which are set out below:

Date	:	6 June 2023
Parties	:	(1) China Asia Electronic (as landlord); and (2) the PRC Subsidiary (as tenant)
Premises	:	An industrial park with an aggregate area of 350,855 square-metres in the Silicon Valley Industrial Park located in Shajing Street, Bao'an District, Shenzhen, the PRC (中國深圳市寶安區沙井街道)
Usage	:	Commercial use
Term	:	Ten years, commencing from the date of Tenancy Completion
Total rent	:	RMB1,413.4 million (equivalent to approximately HK\$1,590.1 million) (inclusive of VAT, but exclusive of government charges and utilities)

The rental payable under the Tenancy Agreement will be financed by the internal resources of the Group, while the Deposit will be financed principally by the net proceeds raised through the proposed issue of the Convertible Bond.

- Payment terms : Rental payments shall be made to China Asia Electronic at the end of each quarter during the term of the Tenancy Agreement.
- Deposit : A deposit of RMB282.6 million (equivalent to approximately HK\$318.0 million) (the “**Deposit**”), being 20% of the total rent payable of approximately RMB1,413.4 million under the Tenancy agreement shall be paid to China Asia Electronic within 10 days after the Tenancy Completion. The Deposit is not refundable other than the following: (i) the PRC Subsidiary elects to terminate the Tenancy agreement due to breach(es) on the part of China Asia Electronic; or (ii) the termination of the Headlease.

The Deposit may be applied to offset the rent payable by the PRC Subsidiary for the last two years of the term of the Tenancy Agreement in the following manner¹:

- (i) firstly, an amount of the Deposit shall be reserved to fully offset the rent payable in the 10th year of the Tenancy Agreement;
- (ii) then, the remaining amount of the Deposit (the “**Remaining Deposit**”) shall be utilised to offset the rent payable in the 9th year of the Tenancy Agreement in the sequence of firstly the last quarterly payment, then the third quarterly payment in the 9th year, so on and so forth, until the full amount of the Remaining Deposit has been applied for setting off the rental payment; and

¹ The Deposit of RMB282.6 million shall firstly be applied to offset the rental payment of RMB174.3 million for the 10th year, then the Remaining Deposit of RMB108.3 million (i.e. RMB282.6 million – RMB 174.3 million) will be applied to partially offset the 9th year’s rental payment of RMB166.0 million in the following manner and sequence – (1) firstly, the last (4th) quarterly rental payment of RMB41.5 million, (2) secondly, the 3rd quarterly rental payment of RMB41.5 million, and (3) lastly, the 2nd quarterly payment of RMB25.3 million, after which the Deposit would be fully utilized. The remaining amount of RMB16.2 million (i.e., RMB57.7 million – RMB41.5 million) in the 2nd quarterly payment in the 9th year shall be paid by the PRC Subsidiary to China Asia Electronic in cash at the end of the 2nd quarter in accordance with the terms of the Tenancy Agreement.

- (iii) the remaining rental payment in the 9th year of the Tenancy Agreement shall be paid by the PRC Subsidiary in accordance with the Tenancy Agreement.

Sub-lease : The PRC Subsidiary shall be entitled to sub-lease all or part of the premises to third parties.

Performance Undertaking : China Asia Electronic has irrevocably undertaken to the PRC Subsidiary that if the rental payable under the Tenancy Agreement for any rental payment period exceeds the actual rental payment received by the PRC Subsidiary from sub-tenants sourced by it for the sub-lease of the premises (the “**Shortfall**”), the actual rental payment received by the PRC Subsidiary shall in all respect be deemed to be the rental payment payable by the PRC Subsidiary to China Asia Electronic for such rental payment period; and China Asia Electronic shall irrevocably waive the Shortfall (and the PRC Subsidiary’s obligations to pay rent for rental payment period shall be deemed to be released and discharged absolutely) (the “**Performance Undertaking**”).

Termination Right : Following the expiry of a period of 24 months after the Tenancy Agreement, the PRC Subsidiary shall be entitled to terminate the Tenancy Agreement by giving six (6) months’ prior notice in writing to China Asia Electronic, whereby the Deposit shall be applied to offset rental payments for the remaining term of the Tenancy Agreement thereafter but shall not be refundable.

China Asia Electronic is not entitled to an early termination right under the Tenancy Agreement.

Compensation upon termination of Headlease : If the Tenancy Agreement is terminated or the PRC Subsidiary is unable to enjoy its rights under the Tenancy Agreement by reason of the termination of the Headlease, China Asia Electronic shall within 10 days refund the Deposit in full to the PRC Subsidiary and compensate the PRC Subsidiary in an amount equivalent to six months’ rent and management fees receivable by the PRC Subsidiary from the sub-tenants.

Conditions precedent

The Tenancy Completion is conditional upon the fulfilment of the following conditions

precedent:

- (a) the Tenancy Agreement and the transaction contemplated thereunder having been approved by Independent Shareholders by way of poll at the EGM in accordance with the Listing Rules;
- (b) the entering into of the Subscription Agreement by the Subscribers and the Company and all conditions precedent to the Subscription Completion (save for the condition(s) precedent in relation to the fulfillment or waiver of all conditions under the Tenancy Agreement) having been fulfilled or waived (as the case may be) in accordance with the Subscription Agreement;
- (c) the PRC Subsidiary, the Company and their affiliates having obtained all necessary approval(s) in respect of the Tenancy Agreement and all transactions contemplated thereunder, including but not limited to all approval(s), consent(s), authorisation(s), registration(s) and filing(s) from the board(s) of directors, relevant government department(s), authority(ies), organisation(s) or any other third parties; and
- (d) there being no material adverse effect (or change) (whether actual or potential) up to the handover of the premises under the Tenancy Agreement.

Except that condition (c) set out above may be waived by China Asia Electronic at its discretion at any time by notice in writing to the PRC Subsidiary, all other conditions are not capable of being waived by China Asia Electronic. Except that condition (d) set out above may be waived by the PRC Subsidiary at its discretion at any time by notice in writing to China Asia Electronic, all other conditions are not capable of being waived by the PRC Subsidiary.

If the above conditions have not been fulfilled or waived on or before 31 August 2023 or such later date as the parties may otherwise agree in writing, all rights, obligations and liabilities of the parties pursuant to the Tenancy Agreement shall cease to have an effect and terminate and either party shall have no claim against the other party save for any antecedent breach or otherwise stipulated in the Tenancy Agreement.

The Tenancy Completion and the Subscription Completion are inter-conditional and shall take place simultaneously.

Arrangements to existing property management services

Since the second half of 2020, the Group has been providing property management services to China Asia Electronic's tenants in the Silicon Valley Industrial Park, and the financial results of such services have been recorded in the financial statements of the Company.

Pursuant to the property regulations in the PRC, leasing and property management services conducted within the Silicon Valley Industrial Park require authorization of China Asia Electronic because of its leasing right. Therefore, to enable the Company's provision of property management services, China Asia Electronic had given authorization to the Group to conduct property management services in the Silicon Valley Industrial Park, including the right to solicit and negotiate service terms with end tenants.

Currently, although the Group (as an authorized property management services provider) has the right to offer property management services in the Silicon Valley Industrial Park, it must separately and independently negotiate and execute property management services agreements with third party tenants. The Group would enter arm-length negotiations with third-party tenants to finalize the terms for the property management services without the interference and participation of China Asia Electronic. Hence, these transactions are independent of China Asia Electronic.

Upon entering into the Tenancy Agreement, the existing property management services agreements made between the Group and individual tenants in the Silicon Valley Industrial Park will be rolled over by the Tenancy Agreement, which will include terms that authorize the Company to continue to conduct property management services in the Silicon Valley Industrial Park. The Group will continue to have to separately negotiate and execute new tenancy agreements with third party tenants independent of China Asia Electronic.

In order to simplify the negotiation process and integration of the Group's services, the terms of the Group's tenancy and property management services have been consolidated into one single tenancy agreement. For tenants with which the Company has existing property management agreements, such property management agreements will be superseded by a new all-in-one tenancy agreement to be entered into between the Group and the tenants, under which the property management services will be rolled over and continued.

Basis for determining the rental payable

The rental amount in the Tenancy Agreement between China Asia Electronic and the PRC Subsidiary was determined after arm's length negotiation based on (i) the rental income received by China Asia Electronic from its existing tenants of the Silicon Valley Industrial Park; (ii) the expected rental income to be generated by the Silicon Valley Industrial Park from 2023-2033; (iii) a 18% discount applied to the rental payments to be made by the PRC Subsidiary compared to factor (ii); and (iv) the appraised value of the right-of-use asset in the amount of RMB1,205.6 million (equivalently to approximately HK\$1,350.3 million) in respect of the lease under the Tenancy Agreement based on a valuation report prepared by an independent valuer engaged by

the Company using 30 April 2023 as reference date and using the income approach.

Details of the above-mentioned factors considered by the Group in determining the rental payable under the Tenancy Agreement are set out below:

(i) *Rental income received by China Asia Electronic from its existing tenants of the Silicon Valley Industrial Park*

Using the actual rent received by China Asia Electronic in April 2023, which amounted to approximately RMB11.4 million and was achieved with an occupancy rate of over 95%, it is anticipated that the Silicon Valley Industrial Park will generate around RMB137.0 million (i.e., RMB11.4 million x 12 months) in rental income for the next 12 months. This estimation is based on the assumption that the occupancy rate remains stable throughout the year and no significant changes occur in market conditions.

(ii) *Expected rental income to be generated by the Silicon Valley Industrial Park from 2023-2033*

Given that COVID-19 restrictions have been lifted in the PRC in early 2023, it is anticipated that the PRC Subsidiary will experience a 5% increase in rent receivable per year due to more active business activities.

To evaluate the projected 5% rise in rental income for the PRC Subsidiary each year, the Directors have taken into account the following factors:

- (a) **Post-COVID 19 economic growths:** The PRC's economy had been growing rapidly before COVID-19 pandemic took place, with an average real GDP growth rate of about 6.5% between 2017 and 2019. The Directors also note that the International Monetary Fund (IMF) forecasts that real GDP in the PRC will grow at an average annual rate of about 4.24% between 2023 and 2027.² This growth is expected to drive demand for commercial rental properties as businesses expand and new enterprises are established.

As economic activities are now resuming because of the end of the COVID-19 restrictions, it is expected that the demand for rental properties will increase, leading to higher rental rates.

- (b) **Inflation:** As inflation rates rise, rental rates tend to follow suit. According to the National Bureau of Statistics of China, consumer prices in the PRC

² Please refer to <https://www.imf.org/en/News/Articles/2023/02/02/pr2328-imf-executive-board-concludes-2022-article-iv-consultation-with-peoples-republic-of-china>

went up by 2.0% in 2022 over the previous year.³ Given the end of the COVID-19 restrictions, the Directors expect that this rate is projected to increase in the coming years; and

- (c) **Government policies:** The PRC government has implemented several policies to support the development of the commercial property market, including tax incentives and relaxed lending restrictions for businesses.⁴ These policies could lead to increased demand for commercial rental properties, driving up rental rates.

Overall, these factors suggest that the rental market for commercial properties in the PRC is likely to experience growth in the coming decade, and hence the Directors are confident that the 5% increment in rental fees is fair, reasonable and reflective of the current market conditions and potential for growth.

Taking the 5% increment into consideration, rental income to be generated under the Tenancy Agreement is expected to reach approximately RMB1,723.6 million during its ten-year term.

Details of such calculations are illustrated in the table in (iii) below.

- (iii) *a 18% discount applied to the rental payments to be made by the PRC Subsidiary compared to factor (ii)*

In determining the rent amount of the Tenancy Agreement, the parties to the agreement have agreed to apply a discount of 18% to the rental income to be generated under the Tenancy Agreement as calculated above. This results in a total rent payable of approximately RMB1,413.4 million under the Tenancy Agreement.

³ Please refer to http://www.stats.gov.cn/english/PressRelease/202302/t20230227_1918979.html

⁴ Please refer to <https://taxsummaries.pwc.com/peoples-republic-of-china/corporate/tax-credits-and-incentives>

The calculation is illustrated below:

Year	Rental income to be generated by the Silicon Valley Industrial Park (RMB' million)	Rental payments to be made by the PRC Subsidiary (RMB' million)
1 st Year	137.0	112.4
2 nd Year	143.9	118.0
3 rd Year	151.1	123.9
4 th Year	158.6	130.1
5 th Year	166.6	136.6
6 th Year	174.9	143.4
7 th Year	183.6	150.6
8 th Year	192.8	158.1
9 th Year	202.5	166.0
10 th Year	212.6	174.3
Total	1,723.6	1,413.4

The Directors believe that the 18% discount is fair and reasonable, as it was achieved through arm's length negotiations made in the best interests of both parties and with good faith intentions. The Directors also consider that a discount of more than 15% as secured by the PRC Subsidiary is favourable in this type of agreement. Therefore, the Directors are satisfied that the Tenancy Agreement reflects a fair and reasonable arrangement for both parties and is in the interests of the Company and the Shareholders as a whole.

Furthermore, the Company considers that the payment terms, which only require the PRC Subsidiary to make rental payments to China Asia Electronic at the end of each quarter during the term of the Tenancy Agreement, as beneficial to the Group as the PRC Subsidiary would be able to make such rental payments with the rental (and property management fees) received from the sub-tenants sourced from the Silicon Valley Industrial Park, which would put the Group in a good liquidity position in carrying out the leasing business and give the Group flexibility in working capital management in terms of its other operations.

The rental payable under the Tenancy Agreement will be financed by the internal resources of the Group, while the Deposit will be financed principally by the net proceeds raised through the proposed issue of the Convertible Bond.

REASONS FOR AND BENEFITS OF ENTERING INTO THE TENANCY AGREEMENT

According to the 2022 Annual Report, property management and other related services continued to be the top revenue and profit driver for the Group. For the year ended 31 December 2022, this segment generated a revenue of approximately HK\$27.8 million, up from HK\$25.4 million in the previous financial year, and a segment profit of approximately HK\$9.4 million, up from HK\$9.2 million in the previous financial year.

As such, it is the Group's intention to focus on its property management and other related services business so as to boost its revenue and profit in future. However, such attempt has been restricted by its lack of financial resources. According to the 2022 Annual Report, as at 31 December 2022, the Company had net current liabilities of approximately HK\$216.1 million. As at the same date, the Company only had cash and cash equivalents of approximately HK\$3.0 million, reflecting that the Company is under pressure to fulfill its financial obligations in the coming 12 months.

Because of the Company's current lack of financial resources and the sentiment in China's property market which remains weak, it has been unable to identify potential business partners which are independent third parties for strategic partnerships.

The Company considers that, for it to be considered by independent third parties as a viable business partner with sufficient financial capability, it must first strengthen its project portfolio and overall financial performance, and entering into the proposed Tenancy Agreement is currently considered to be the most viable way of achieving this goal and advancing the interests of the Company and the Shareholders.

In view of the above and considering (i) the 18% discount represented by the rent amount of the Tenancy Agreement to the expected rental income to be generated by the Silicon Valley Industrial Park from 2023-2033; (ii) the favourable payment terms; (iii) the Performance Undertaking; and (iv) the right of the PRC Subsidiary to terminate the Tenancy Agreement if it sees fit, the Directors consider that the entering into of the Tenancy Agreement represents a promising opportunity to the Group to grow with a relatively low level of risk.

The Directors (excluding the independent non-executive Directors who reserved their views pending the advice from the Independent Financial Adviser) also consider that the terms of the Tenancy Agreement are on normal commercial terms or better; and despite the transactions contemplated under the Tenancy Agreement are not entered into in the ordinary and usual course of business of the Group, they are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

ANALYSIS OF RELIANCE ON THE CONNECTED PERSONS

While the Directors are aware of the significant size of the Tenancy Agreement and the fact that Mr. Huang and China Asia Electronic are connected persons of the Company, it is of the view that the Tenancy Agreement and the transactions contemplated thereunder will not result in (i) the Company's material reliance on either Mr. Huang, its controlling shareholder, or China Asia Electronic; and (ii) the subject transactions becoming the Company's primary source of revenue in the long run.

The Company considers that its business model in respect of the provision of property sub-leasing and property management services is viable and sustainable because of the following factors:

- (i) The Company expects no material change to its relationship with either Mr. Huang, its controlling shareholder, or China Asia Electronic in the foreseeable future, as the Company considers that the Performance Undertaking by China Asia Electronic serves as evidence of its dedication to fostering a positive relationship with the Company and collaborating towards its ongoing success. The commitment for a relatively long 10-year period under the Tenancy Agreement by China Asia Electronic also demonstrates the mutual intention of the parties to maintain and develop a solid and stable relationship.

Similarly, given Mr. Huang's leadership and sizable ownership stakes in both the Company and China Asia Electronic, it should already be made clear that he is dedicated to the success of the Company and there be very little incentive for him to disrupt this relationship.

- (ii) While the Company expects no material change to its relationship with Mr. Huang in the foreseeable future, by entering into the Tenancy Agreement, the Company expects to further develop its own business network and reputation in the PRC property industry, meanwhile strengthening its sales and operation teams there to further support the expansion of its business in the PRC and abroad.

As its financial profile improves, the Company expects to attract and collaborate with more independent third-party business partners, thus further enriching the diversity of the Company's business partners.

- (iii) During the 10-year term of the Tenancy Agreement, China Asia Electronic would not have the right to terminate the agreement unilaterally. In other words, the key terms of the Tenancy Agreement will be locked in for ten years, unless the Company chooses to terminate the agreement unilaterally. Accordingly, any changes in the Company's relationship with either Mr. Huang or China Asia Electronic is not expected to have a material adverse impact on the Company's

business or financial condition.

- (iv) The Tenancy Agreement is not a mandatory continuing operational cooperation but a contractual arrangement which the Group can terminate unilaterally. The Group is therefore not restricted from entering into similar tenancy arrangements with independent third parties and further expanding its property-related businesses.

In fact, the Group has been proactive in expanding its property management services and other related services segment and other businesses. As mentioned in the Company's announcement dated 28 October 2022, the Group has established a wholly-owned subsidiary, Zhongya Xigu Property Management (Quanzhou) Co., Ltd.* (中雅烯谷物業管理(泉州)有限公司) (“**Zhongya Quanzhou**”) to expand such services segment in the PRC.

Further, on 25 October 2022, the Group established a joint venture company (the “**JV Company**”) with an independent third party, namely Guizhou Zhonghan Construction Engineering Co., Ltd.* (貴州中瀚建築工程有限責任公司), in the PRC. The JV Company is principally engaged in the construction business, which generally involves the provision of construction services by the Group to its customers.

As at the date of this announcement, the JV Company has already obtained the relevant construction-related qualifications and is actively negotiating with several independent third parties regarding its construction business and has already signed several cooperation agreements with these partners.

The Company expects that its process of seeking these new partners would be expedited if its financial profile is enhanced.

INFORMATION ON THE PARTIES TO THE TENANCY AGREEMENT

The Company and the Group

The Company is incorporated under the laws of Bermuda with limited liability, and is principally engaged in investment holding. The Group is principally engaged in property investment, provision of horticultural services and sales of plants, and property management and other related services.

The PRC Subsidiary

The PRC Subsidiary is an investment holding company incorporated in the PRC and is

an indirect wholly-owned subsidiary of the Company.

Mr. Huang

Mr. Huang Binghuang is an executive Director, the chairman and the chief executive officer of the Company, who is deemed to be interested in 74.93% of the Shares and hence is a controlling shareholder of the Company as at the date of this announcement.

China Asia Electronic

China Asia Electronic is a property investment company established in the PRC with limited liability. As at the date of this announcement, China Asia Electronic is held as to 60% of its equity interest by China Asia Real Estate Group Co., Ltd.* (中亞置業集團有限公司) and 40% of its equity interest by SZ Xinghuo Chuangke.

China Asia Real Estate Group Co., Ltd.* (中亞置業集團有限公司) is ultimately held as to 87.3% of its equity interest by Mr. Huang and 12.7% of its equity interest by Mr. Huang Binghua, respectively; and is principally engaged in property development, construction, property management, and trading.

Given that Mr. Huang Binghua is the brother of Mr. Huang, he is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules.

SZ Xinghuo Chuangke is ultimately held as to 90% by Mr. Liu Zeqiang and 10% by Mr. Li Jun, respectively; and is principally engaged in providing marketing services, design templates, custom websites, and technology consulting.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Liu Zeqiang and Mr. Li Jun are third parties independent of and not connected with the Company and its connected persons.

RIGHT-OF-USE ASSET TO BE RECOGNISED PURSUANT IN CONNECTION WITH THE TENANCY AGREEMENT

Pursuant to HKFRS 16 "Leases", the Group will recognise a right-of-use asset in respect of the lease under the Tenancy Agreement upon commencement of the lease term. The value of the right-of-use asset to be recognised by the Company in connection with the Tenancy Agreement is estimated to be approximately RMB939.3 million (equivalent to approximately HK\$1,057.4 million) as at 30 April 2023, which is the present value of aggregated lease payments less incentives (if any) and plus initial direct costs with the lease in accordance with HKFRS 16 "Leases". The above estimated value of the right-of-use asset is subject to audit to be conducted by an independent auditor engaged by the Company and may be subject to adjustment in the future.

PROPOSED ISSUE OF CONVERTIBLE BOND

On 6 June 2023 (after trading hours), the Company entered into the Subscription Agreement with the Subscribers, pursuant to which the Subscribers have conditionally agreed to subscribe, and the Company has conditionally agreed to issue the Convertible Bond in the aggregate principal amount of HK\$353,360,000.

Set out below are the principal terms of the Subscription Agreement:

SUBSCRIPTION AGREEMENT

Date

6 June 2023 (after trading hours)

Parties

- Issuer : The Company
- Subscribers : (i) Mr. Huang;
- (ii) Zhongjun Holding Group Co., Ltd (中軍控股集團有限公司) (being an Independent Subscriber); and
- (iii) Xuhong International Corporation (旭宏國際有限公司) (being an Independent Subscriber).

As at the date of this announcement, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Independent Subscribers and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

The Subscribers have conditionally agreed to subscribe, and the Company has conditionally agreed to issue the Convertible Bond in the following manner:

Subscribers	Principal amount of Convertible Bond (HK\$)
Subscriber 1	95,150,000
Subscriber 2	24,760,000
Mr. Huang	233,450,000
Total	353,360,000

Conditions precedent

The Subscription Completion is conditional upon the fulfilment or waiver (where applicable) of the following conditions:

- (a) the passing of resolutions by the Independent Shareholders at the EGM convened in accordance with the Listing Rules approving the issue of the Convertible Bond and all transactions contemplated under the Subscription Agreement;
- (b) China Asia Electronic and the PRC Subsidiary having duly entered into the Tenancy Agreement, and all conditions precedents to the Tenancy Completion (save for the condition precedent relating to the fulfilment or waiver of all the conditions precedents under the Subscription Agreement) having been fulfilled or waived (as the case may be) in accordance with the Tenancy Agreement;
- (c) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares;
- (d) the Company and its affiliates having obtained all necessary approval(s) in respect of the Subscription Agreement and all transactions contemplated thereunder, including but not limited to all approval(s), consent(s), authorisation(s), registration(s) and filing(s) from the board(s) of directors, relevant government department(s), authority(ies), organisation(s) or any other third parties, and such approvals not having been revoked or cancelled before the Subscription Completion;
- (e) the Subscribers having obtained all necessary approvals in respect of the Subscription Agreement and all transactions contemplated thereunder, including but not limited to all approval(s), consent(s), authorisation(s), registration(s) and filing(s) from relevant government department(s), authority(ies), organisation(s) or any other third parties, and such approvals not having been revoked or

cancelled before the Subscription Completion;

- (f) there having been no government actions, court orders or legal proceedings that would render the Subscription illegal, restricted or prohibited before the Subscription Completion;
- (g) the representations, warranties and/or undertakings given by the Company under the Subscription Agreement remaining true, accurate, complete and not misleading in all material respects from the date of the Subscription Agreement to the Subscription Completion Date; and there having been no material breach of the Subscription Agreement committed by any of the parties to the Subscription Agreement; and
- (h) there being no (actual or potential) material adverse effect (or changes) before the Subscription Completion Date.

Except that conditions (d), (g) and (h) set out above may be waived by the Subscribers at their discretion at any time by notice in writing to the Company, all other conditions are not capable of being waived by the Subscribers. Except that condition (e) set out above may be waived by the Company at its discretion at any time by notice in writing to the Subscribers, all other conditions are not capable of being waived by the Company.

The Company shall use reasonable effort to procure the satisfaction of all the conditions set out above (except for condition (e)), and the Subscribers shall use reasonable effort to procure the satisfaction of conditions (b), (e), (f) and (h).

If the conditions set out above are not satisfied or waived (if applicable) on or before the Long Stop Date (or such other date as may be agreed by the Subscribers and the Company in writing), the Subscription Agreement shall lapse and become null and void with immediate effect, save for any antecedent breaches.

Subscription Completion

Subject to the fulfilment or waiver of all conditions precedents, the Subscription Completion shall occur on the Subscription Completion Date at such location and time as may be agreed by the Company and the Subscribers.

The Subscription Completion and the Tenancy Completion are inter-conditional and shall take place simultaneously.

PRINCIPAL TERMS OF THE CONVERTIBLE BOND

- Principal amount : HK\$353,360,000
- Issue price : 100% of the principal amount of the Convertible Bond
- Status : The Convertible Bond constitutes direct, unconditional, unsubordinated and unsecured obligations of the Company and ranks at least *pari passu* and rateably without preference amongst themselves.
- Conversion Price : The initial Conversion Price of HK\$0.1 per Conversion Share represents:
- (a) a discount of approximately 33.3% to the closing price of HK\$0.150 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement (being 6 June 2023);
 - (b) a discount of approximately 31.5% to the average closing price of HK\$0.146 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately prior to the date of this announcement;
 - (c) a discount of approximately 29.6% to the average closing price of HK\$0.142 per Share as quoted on the Stock Exchange for the last ten (10) trading days immediately prior to the date of this announcement;
 - (d) a discount of approximately 18.0% to the average closing price of HK\$0.122 per Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to the date of this announcement;
 - (e) a premium of approximately 6.4% to the average closing price of HK\$0.094 per Share as quoted on the Stock Exchange for the last 60 trading days immediately prior to the date of this announcement;
 - (f) a premium of approximately 14.9% to the

average closing price of HK\$0.087 per Share as quoted on the Stock Exchange for the last 180 trading days immediately prior to the date of this announcement;

- (g) a premium of approximately 23.5% to the average closing price of HK\$0.081 per Share as quoted on the Stock Exchange for the last 365 trading days immediately prior to the date of this announcement; and
- (h) a premium of approximately 115.1%, or HK\$0.0535, over the Group's audited net assets per Share of approximately HK\$0.0465 as at 31 December 2022, as calculated based on the Group's audited net assets of HK\$131,189,000 as at 31 December 2022 and 2,819,102,084 Shares in issue as at the date of this announcement.

The initial Conversion Price was determined after arm's length negotiations between the Company and the Subscribers with reference to, among other factors, (i) the market conditions; (ii) the net current liabilities position of the Group; (iii) the historical prices of the Shares; and (iv) the amount of funds required to be raised by the Company for the Deposit to fulfill its strategic objective (including the transactions contemplated under the Tenancy Agreement).

The Directors (excluding the members of the Independent Board Committee whose views are to be included in the circular to be despatched by the Company, after being advised by the Independent Financial Adviser) consider the Conversion Price is fair and reasonable and in the interests of the Company and Shareholders as a whole.

Adjustment events : The Conversion Price shall from time to time be subject to adjustment upon the occurrence of the following events:

- (a) consolidation or subdivision;

- (b) capitalisation issue;
- (c) scrip dividend; and
- (d) capital distribution.

No adjustment will be made to the Conversion Price, including but not limited to when Shares or other securities (including rights or options) are issued, offered or granted to employees (including directors) of the Company or any of its subsidiaries pursuant to any share option scheme of the Company. No adjustment will be made to (a) an issue of fully paid Shares upon the exercise of any conversion rights attached to the Convertible Bond.

Every adjustment of the Conversion Price shall be certified in writing by approved independent financial advisors or the auditors of the Company or recognised valuers.

Interest rate : The Convertible Bond shall bear interest at the rate of 3.6% per annum and computed on the basis of a 365-day year and the actual number of days elapsed in respect of the period from and including the issue date and including the Maturity Date, payable in arrears on the Maturity Date (as defined below).

Maturity date : The date falling on the fifth (5th) anniversary of the issue date, or, if that is not a business day, the first business day thereafter (the “**Maturity Date**”).

Redemption : *Redemption upon maturity*

Unless redeemed, converted or purchased and cancelled before the Maturity Date, the Convertible Bond shall be redeemed at the principal amount plus accrued but unpaid interest on the Maturity Date.

Redemption upon Event of Default

On the occurrence of any Event of Default, all the unconverted Convertible Bond then outstanding will be redeemable by prior written notice of the Bondholder(s)

at a value equal to the aggregate of the principal amount outstanding under the Convertible Bond plus accrued but unpaid interest.

Early Redemption : The Company shall have the right, as from six (6) months after the issue date, to early redeem the Convertible Bond partly or fully, by giving one month's prior notice in writing to the Bondholder(s). The principal amount to be redeemed each time should be in multiples of HK\$10 million (except for the remaining odd amount).

Conversion Shares : An aggregate of 3,533,600,000 Conversion Shares shall be allotted and issued under the Specific Mandate to be granted by the Shareholders at the EGM upon full conversion of the Convertible Bond at the Conversion Price, representing:

- (i) approximately 125.3% of the issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 55.6% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Bond at the Conversion Price without adjustment (assuming there is no other change in the issued share capital of the Company from the date of this announcement up to the issue of the Convertible Shares).

The Conversion Shares, when issued, will in all respects rank pari passu with the Shares already in issue on the day when the Conversion Shares are issued.

The maximum aggregate nominal value of the Conversion Shares (upon exercise in full of the Conversion Rights) will be HK176,680,000 based on the nominal value of HK\$0.05 per Share.

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

Conversion Period : The Bondholders will have the right, on any business days during the period commencing from the date falling one (1) month after the issue date of the Convertible Bond up to and including the Maturity Date, to convert the whole or part of the principal amount of the Convertible Bond into the Conversion Shares at the Conversion Price.

The Bondholders shall only exercise conversion rights attaching to the Convertible Bond if immediately following the exercise of conversion rights by the Bondholder(s):

- (a) the Company will be able to satisfy the public float requirement under Rule 8.08 of the Listing Rules;
- (b) the Bondholders and persons acting in concert with them will not be required to make a general offer under Rule 26 of the Takeovers Code or such obligation having been waived (regardless of whether the obligation to make general offer arises from the allotment and issue of Conversion Shares upon the exercise of the conversion rights under the Convertible Bond; and
- (c) the Bondholders will not be in breach of any relevant laws, rules and regulations, including but not limited to the Listing Rules and the Takeovers Code.

Any conversion shall be made in amounts of not less than a whole multiple of HK\$10 million on each conversion unless the principal amount of the outstanding Convertible Bond is less than HK\$10 million in which case the whole (but not part only) of such outstanding principal amount of the Convertible Bond shall be converted.

Event of Default : The events specified below are events of default (the “**Event(s) of Default**”):

- (a) a default in the payment of any amount due in respect of the Convertible Bond when the same ought to be paid in accordance with the terms and conditions of the Convertible Bond;
- (b) a default of the Company in the performance or observance of any covenant, condition or provision contained in the terms and conditions of the Convertible Bond and on its part to be performed or observed (other than the covenant to pay the principal) and such default is incapable of remedy, or if capable of remedy, is not remedied within 14 business days of service by the Bondholders on the Company, of notice requiring such default to be remedied;
- (c) a resolution is passed or an order of a court of competent jurisdiction is made that the Company or any Material Subsidiaries be wound up or dissolved;
- (d) any governmental or other authority expropriates, or threatens to expropriate, all or any substantial part of the business or assets of the Company or any Material Subsidiaries, save as permitted in the conditions of the Convertible Bond;
- (e) an encumbrancer takes possession of or a receiver is appointed over the whole or a material part of the assets or undertaking of the Company or any Material Subsidiaries, and such possession or appointment is not terminated within 60 business days of a written request by the Bondholders;
- (f) a distress, execution or seizure order before judgment is levied or enforced upon or sued out against the whole or a material part of the property of the Company or any Material Subsidiaries, which is not discharged within 60 business days thereafter;

- (g) the Company or any Material Subsidiaries initiates or consents to proceedings relating to itself under any applicable reorganization or insolvency law or makes an assignment for the benefit of, or enters into any composition with, its creditors generally;
- (h) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under the terms and conditions of the Convertible Bond; and
- (i) any event occurs which has an analogous effect to any of the events referred to in paragraphs (a) to (h) above.

Ranking : The Convertible Bond constitutes direct, unsecured, unsubordinated and unconditional obligations of the Company and ranks *pari passu* and without any preference or priority among themselves.

Voting rights : The Bondholders shall not have any right to attend or vote in any general meeting of the Company.

Transferability : Subject to (i) the rules of the Stock Exchange and the Securities and Futures Commission, the Listing Rules and the Takeovers Code; (ii) the listing approval in respect of the conversion of the Conversion Shares under the Convertible Bond; and (iii) all conditions, approval, requirements or other terms stipulated in laws and regulations, the Convertible Bonds may be freely assigned or transferred subject to the following conditions:

- (a) the Bondholders have given written notice to the Company at least 14 business days prior to each proposed assignment or transfer and, unless otherwise approved by the Company, no assignment or transfer of the Convertible Bond shall be made to any connected person (as defined under the Listing Rules) of the Company

- (b) the Convertible Bond would be transferable by the Bondholder in whole amounts or multiples of units of principal amount of HK\$1.0 million; and
- (c) The Convertible Bonds may be freely assigned or transferred by the Bondholders after notifying the Company.

Application for Listing : No application will be made by the Company to the Stock Exchange for listing of the Convertible Bond.

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

The Board is aware of the discount represented by the Conversion Price to the recent closing price of the Shares. As disclosed above, the initial Conversion Price was determined after arm's length negotiations between the Company and the Subscribers with reference to, among other factors, (i) the market conditions; (ii) the net current liabilities position of the Group as disclosed in the above section headed "Reasons for and benefits of entering into the Tenancy Agreement"; (iii) the historical prices of the Shares; and (iv) the amount of funds required to be raised by the Company for the Deposit to fulfill its strategic objective (including the transactions contemplated under the Tenancy Agreement) as discussed in the above section headed "Reasons for and benefits of entering into the Tenancy Agreement", and the below section headed "Reasons for and benefits of entering into the Subscription Agreement and the issue of the Convertible Bond".

Among the above factors, the Board observed that the prices of the Shares have experienced a recent increase without any significant new information being announced by the Company. While share prices naturally fluctuate, the Board considers that, in the absence of significant changes, a fairer representation of the market value of the Shares should be obtained by considering the historical closing prices over a more extended and reasonable period. In this regard, it should be noted that the Conversion Price of HK\$0.1 represents a premium of approximately 23.5% to the average closing price of HK\$0.081 per Share as quoted on the Stock Exchange for the last 365 trading days immediately prior the date of this announcement, reflecting that the Conversion Price is still favourable to the Company.

Considering the above and recognizing the importance of attracting investors and ensuring the success of the Company's fundraising initiative, which includes entering into the Tenancy Agreement, the Board believes that it is crucial to offer a discount on the Conversion Price. The Board considers that the discount is both reasonable and necessary to secure the essential capital required for the Deposit and, most importantly,

to support the Company's growth plans.

The Directors (excluding the members of the Independent Board Committee whose views are to be included in the circular to be despatched by the Company, after being advised by the Independent Financial Adviser) consider that the terms and conditions of the Subscription Agreement and the Convertible Bond, which were arrived at after arm's length negotiations between the Company and the Subscribers, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS OF THE SUBSCRIPTION

The gross proceeds and estimated net proceeds of the Subscription will be approximately HK\$353,360,000 and HK\$352,360,000, respectively.

The Company intends to apply the estimated net proceeds (after deducting all relevant costs and expenses of the issue of the Convertible Bond) for the following purposes:

- approximately HK\$317,124,000, being 90.0% of the estimated net proceeds, for payment of the Deposit; and
- approximately HK\$35,236,000, being 10.0% of the estimated net proceeds, for general working capital of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUBSCRIPTION AGREEMENT AND THE ISSUE OF THE CONVERTIBLE BOND

In light of the payment of the Deposit of approximately RMB282.6 million (equivalent to approximately HK\$318.0 million) pursuant to the Tenancy Agreement and the Group's net current liabilities of approximately HK\$216,066,000 as at 31 December 2022, the Directors are of the view that the Group should fund the Deposit through entering into the Subscription Agreement.

The Directors have considered alternative ways to fund the Deposit other than the issue of the Convertible Bond. In this regard, the Directors consider that bank borrowings may not be feasible as (i) the Group already had a high gearing ratio of around 184% as at 31 December 2022; and (ii) its loss position would unlikely allow it to obtain favourable borrowing rates from financial institutions.

The Directors have also considered various equity fundraising options such as a placing, rights issue and open offer of new Shares, which do not appear to be the most beneficial fundraising means to the Group, given that (i) the subscription price in a placing, rights issue or open offer exercise would usually need to be set at a deep discount to the

prevailing market price of the Shares so as to attract subscription by potential investors or existing Shareholders; (ii) rights issue or open offer of new Shares is a more time-consuming process and subject to underwriting uncertainty and market risks (i.e., underwriting and other related fees could be high); and (iii) all these options, unlike the issue of the Convertible Bond, would entail immediate dilution effect on the shareholding of non-participating Shareholders, whereas the dilution effect from the Convertible Bond will only occur when Subscribers exercises the conversion rights attaching to the Convertible Bond.

Given the above, the Directors (excluding the members of the Independent Board Committee whose views are to be included in the circular to be despatched by the Company, after being advised by the Independent Financial Adviser) consider that the issue of the Convertible Bond is currently the most appropriate means to finance the Deposit, and that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE SUBSCRIBERS

Mr. Huang

Please refer to the paragraph headed “Information on the parties to the Tenancy Agreement – Mr. Huang” for information on Mr. Huang.

Subscriber 1

Subscriber 1 is a company incorporated in Hong Kong with limited liability and is principally engaged in operation of internet big data platforms, and development and sales of electronic products. Subscriber 1 is held as to 100% of its shares by Mr. Li Jun, who holds 10% of the equity in SZ Xinghuo Chuangke.

Subscriber 2

Subscriber 2 is a company incorporated in the British Virgin Islands with limited liability and is an investment company principally engaged in investments in Sino-Hong Kong enterprises, financial services, asset management, risk and industrial investments, and other physical and financial products. Subscriber 2 is held as to 100% of its shares by Mr. Xiong Guoqiang* (熊國強).

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, (i) each of the two Independent Subscribers (and their respective ultimate beneficial owners) are independent of each other and there is no relationship between the Independent Subscribers (and their respective ultimate beneficial owners) and the Company and its connected persons; and (ii) there is, and in

the past twelve months, there has been, no material loan arrangement between the Independent Subscribers (and their respective ultimate beneficial owners) and the Company, any connected person at the issuer's level and/or any connected person of the Company's subsidiaries involved in the Subscription and/or the Tenancy Agreement and the transactions contemplated thereunder.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates (i) the shareholding structure of the Company as at the date of this announcement and (ii) the shareholding structure immediately after full conversion of the Convertible Bond into Conversion Shares at the initial Conversion Price without adjustment (assuming there is no other change in the total number of Shares from the date of this announcement up to the issue of the Conversion Shares):

	As at the date of this announcement (Note)		Immediately after full conversion of the Convertible Bond into Conversion Shares at the initial Conversion Price without adjustment	
	No. of Shares	% of issued share capital of the Company	No. of Shares	% of enlarged issued share capital of the Company
China Asia Group Inc. (Note 1)	2,112,395,735	74.93%	2,112,395,735	33.25%
Mr. Huang (Note 1)	-	-	2,334,500,000	36.75%
Public shareholders				
Subscriber 1 (Note 2)	-	-	951,500,000	14.98%
Subscriber 2 (Note 2)			247,600,000	3.90%
Other public shareholders	706,706,349	25.07%	706,706,349	11.12%
Total	2,819,102,084	100%	6,352,702,084	100.0%

Notes:

1. China Asia Group Inc. is wholly-owned by Mr. Huang and hence Mr. Huang is deemed to be interested in the 2,112,395,735 Shares held by China Asia Group Inc..
2. Pursuant to the terms and conditions of the Convertible Bond, the Bondholders shall only exercise conversion rights attaching to the Convertible Bond if immediately following the exercise of conversion rights by the Bondholder(s), amongst others, the

Company will be able to satisfy the public float requirement under Rule 8.08 of the Listing Rules.

The Board acknowledges the theoretical dilution effect of approximately 13.95% resulting from the Subscription. The number of Conversion Shares and the corresponding theoretical dilution effect are determined by the Deposit amount and the Conversion Price. Taking into account the Board's assessment that the Conversion Price is fair and reasonable as discussed above, the Board considers the significant increase in the number of Shares and the subsequent theoretical dilution effect to be both reasonable and necessary. It is considered necessary to achieve the Company's objectives in securing the required capital and supporting its growth plans.

On the other hand, the Board strongly believes that the long-term benefits arising from the Subscription, specifically the favourable business prospects resulting from entering into the Tenancy Agreement, outweigh the dilution effect. The Board is, therefore, confident that the Subscription is in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not carry out any equity fund raising activities during the past 12 months prior to the date of this announcement.

LISTING RULES IMPLICATIONS

Tenancy Agreement

Pursuant to HKFRS 16, as a result of entering into the Tenancy Agreement, the Group will recognise a right-of-use asset in its consolidated financial statements in connection with the lease of the premises under the Tenancy Agreement. Therefore, the entering into of the Tenancy Agreement will be regarded as an acquisition of assets by the Group under the definition of transaction set out in Rule 14.04(1)(a) of the Listing Rules.

As disclosed above, China Asia Electronic is held as to 60% by China Asia Real Estate Group Co., Ltd.* (中亞置業集團有限公司), which is ultimately held as to 87.3% by Mr. Huang and 12.7% by Mr. Huang Binghua, respectively.

As at the date of this announcement, Mr. Huang is a controlling shareholder of the Company who is deemed to be interested in 74.93% of the Shares. Accordingly, Mr. Huang is a connected person of the Company under Chapter 14A of the Listing Rules.

Meanwhile, given that Mr. Huang Binghua is the brother of Mr. Huang, he is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules.

The remaining 40% of equity in China Asia Electronic is held by SZ Xinghuo Chuangke, which is ultimately held as to 90% by Mr. Liu Zeqiang and 10% by Mr. Li Jun, respectively. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Liu Zeqiang and Mr. Li Jun are third parties independent of and not connected with the Company and its connected persons.

As one or more of the applicable percentage ratios in respect of the value of the right-of-use asset to be recognised by the Group in connection with the Tenancy Agreement according to HKFRS 16 "Leases" is more than 100%, the Tenancy Agreement and the transaction contemplated thereunder constitutes a very substantial acquisition of the Company and a connected transaction of the Company, and are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Upon consultation with the Stock Exchange, based on the submission of the Company, the Stock Exchange has confirmed that the Tenancy Agreement would constitute a very substantial acquisition and connected transaction of the Company and would not be regarded as a reverse takeover under Rule 14.06B of the Listing Rules.

Subscription Agreement

Given that Mr. Huang, being one of the Subscribers, is a connected person of the Company under Chapter 14A of the Listing Rules, the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate) constitute a connected transaction of the Company and is subject to reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Huang is a Subscriber and controls China Asia Electronic, he is considered to be materially interested in and has therefore abstained from voting on the resolutions of the Board to approve (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate).

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all the independent non-executive Directors will be formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate).

INDEPENDENT FINANCIAL ADVISER

An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate).

EGM

An EGM will be convened for the purpose of considering and, if thought fit, approving the (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate).

As at the date of this announcement, Mr. Huang is a controlling shareholding of the Company who is deemed to be interested in 74.93% of the issued share capital of the Company. As Mr. Huang is a Subscriber and controls China Asia Electronic, he is considered to be materially interested in and is (together with his associates) required to abstain from voting on the resolutions to approve (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate) at the EGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, no Shareholders are required to abstain from voting on the resolutions to approve (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate) at the EGM.

A circular containing, among others, (i) further details of the Tenancy Agreement and the Subscription Agreement, including the issue of the Convertible Bond and the Conversion Shares under the Specific Mandate; (ii) a letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Tenancy Agreement and the Subscription Agreement; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Tenancy Agreement and the Subscription Agreement; (iv) a notice of the EGM; and (v) other information in relation to the Company as required under the Listing Rules, will be despatched to the Shareholders on or before 31 July 2023, as additional time is needed for the preparation of the certain relevant information for inclusion in the circular.

The Tenancy Completion and Subscription Completion are subject to the fulfillment or waiver of their respective conditions precedent as set out in this announcement. As the transactions under the Tenancy Agreement and the Subscription Agreement may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. If they are in any doubt, they should consult their professional advisers.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite to them below:

“Board”	the board of Directors;
“Bondholder(s)”	holder(s) of the Convertible Bond;
“China Asia Electronic”	Shenzhen Qiangang China Asia Electronic City Group Co., Ltd.* (深圳市強崗中亞電子城集團有限公司), a property investment company incorporated in the PRC which is held as to 60% of its equity interest by Mr. Huang;
“Company”	China Asia Valley Group Limited (中亞峽谷集團有限公司), a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange (stock code: 63);
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Conversion Price”	the initial conversion price of HK\$0.1 per each Conversion Share, and the conversion price may be subject to such adjustment(s) as set out in the paragraph headed “Principal Terms of the Convertible Bond - Adjustments Events” above, but in any event, the Conversion Price shall not be lower than the par value of each Share;
“Conversion Share(s)”	the total number of 3,533,600,000 Share(s) to be allotted and issued by the Company at the Conversion Price upon exercising of the conversion rights under the terms and conditions of the Convertible Bond;
“Convertible Bond”	the convertible bond in the principal amount of HK\$353,360,000 at an interest rate of 3.6% per annum to be issued by the Company to the Subscribers subject to the provisions of the terms and conditions of the Convertible Bond;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;

“Deposit”	a 20% deposit of the total rent payable under the Tenancy Agreement payable by the PRC Subsidiary to China Asia Electronic upon the signing of the Tenancy Agreement;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company (or any adjournment thereof) to be held for the purpose of considering and, if thought fit, approving (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate);
“Group”	the Company and its subsidiaries;
“Headlease”	the headlease entered into between China Asia Electronic as tenant and Shenzhen Shajing Bogang Cooperative Co., Ltd.* (深圳市沙井坐崗股份合作公司) (an independent third party) as landlord on 19 October 2013 in respect of the identified 268,860.63 square-metre area of the Silicon Valley Industrial Park (of which the premises under the Tenancy Agreement forms part and which China Asia Electronic is entitled to expand by between 70,000 and 100,000 square-metres through additional construction at its own expense) for a term of 20 years commencing from 19 October 2013 to 18 January 2034 (both days inclusive). The initial rent payable by China Asia Electronic as under the Headlease was RMB4,301,770.08 per month, to be adjusted every five years, to RMB5,855,784.52 per month from 1 September 2030 onward;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent board committee comprising the independent non-executive Directors to advise the Independent Shareholders as to the fairness and reasonableness of (i) the Tenancy Agreement and the

	transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate);
“Independent Financial Adviser”	an independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate);
“Independent Shareholders”	the Shareholders not required under the Listing Rules to abstain from voting on the resolution(s) approving (i) the Tenancy Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate);
“Independent Subscribers”	Subscribers other than Mr. Huang (i.e. Subscriber 1 and Subscriber 2), who are all third parties independent of and not connected with the Company and its connected persons;
“Listing Committee”	the listing committee of the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	31 August 2023 (or such later date as may be agreed by the Subscribers and the Company in writing), being the latest date to fulfil or satisfy the conditions precedent under the Subscription Agreement;
“Material Subsidiaries”	subsidiaries of the Company whose total assets, revenue and net profit constitute 50% or above of the consolidated total assets, revenue and net profit of the Group, respectively;
“Mr. Huang”	Mr. Huang Binghuang, an executive director, the

	chairman and chief executive officer of the Company who is deemed to be interested in 74.93% of the Shares as at the date of this announcement;
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan);
“PRC Subsidiary”	Shenzhen Zhongya Industry Operation Co., Ltd. * (深圳市中雅產業運營有限公司, an investment holding company incorporated in PRC and indirectly wholly-owned by the Company);
“Share(s)”	the share(s) of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Specific Mandate”	the specific mandate to be granted by the Independent Shareholders to the Board at the EGM for the allotment and issue of the Conversion Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber 1”	Zhongjun Holding Group Company Limited (中軍控股集團有限公司), a company incorporated under the laws of Hong Kong with limited liability;
“Subscriber 2”	Xuhong International Corporation (旭宏國際有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability;
“Subscriber(s)”	collectively, Mr. Huang and the two (2) Independent Subscribers, and a “Subscriber” shall refer to any one of them;
“Subscription”	the subscription of the Convertible Bond pursuant to the Subscription Agreement;
“Subscription Agreement”	the conditional subscription agreement entered into between the Company and the Subscribers on 6 June 2023 in relation to the Subscription;
“Subscription Completion”	the completion of the Subscription pursuant to the

Subscription Agreement;

“Subscription Completion Date”	the date of the Subscription Completion, which shall be the 2nd business day after the date on which all the conditions precedent to the Subscription Completion have been satisfied or waived, or such other date as the Company and the Subscribers may agree in writing;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“SZ Xinghuo Chuangke”	Shenzhen Xinghuo Chuangke Technology Co., Ltd.* (深圳市星火創客科技有限公司), a company established under the laws of the PRC with limited liability and is ultimately held as to 90% by Mr. Liu Zeqiang and 10% by Mr. Li Jun;
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs published by the Securities and Futures Commission of Hong Kong;
“Tenancy Agreement”	the tenancy agreement entered into between the PRC Subsidiary as tenant and China Asia Electronic as landlord in relation to an aggregate area of 350,855 square-metres in the Silicon Valley Industrial Park dated 6 June 2023;
“Tenancy Completion”	the handover of possession of the premises from the China Asia Electronic to the PRC Subsidiary within seven (7) days after the fulfilment or waiver of all conditions precedent pursuant to the terms of the Tenancy Agreement;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC; and
“%”	per cent.

** For identification purposes only*

For the purpose of this announcement, the conversion of RMB to HK\$ is based on the exchange

rate of RMB1.00 = HK\$1.12. Such conversion is for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted at such or any other rates or at all.

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

Hong Kong, 6 June 2023

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