THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Asia Valley Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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; (2) PROPOSED ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE; AND (3) NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser

PELICAN FINANCIAL
百利勤金融

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

Donvex 富域資本
Donvex Capital Limited
富域資本有限公司

A notice convening a special general meeting (the "**SGM**") of the Company to be held at Rooms 1237-40, 12/F., Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong on Friday, 17 November 2023 at 11:00 a.m. is set out on pages SGM-I to SGM-III of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.00063.cn). Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than Wednesday, 15 November 2023 at 11:00 a.m. (Hong Kong time) (being not less than 48 hours before the time of the SGM) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjournment thereof if they so wish.

31 October 2023

CONTENTS

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

"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Bondholder(s)"	holder(s) of the Convertible Bond;
"CA Group"	China Asia Group Inc., a company incorporated under the laws of the British Virgin Islands with limited liability and a company wholly owned by Mr. Huang;
"China Asia Electronic"	Shenzhen Qiangang China Asia Electronic City Group Co., Ltd.* (深圳市坐崗中亞電子城集團有限責任公司), a property investment company established in the PRC which is held as to 60% of its equity interest by Mr. Huang;
"Company"	China Asia Valley Group Limited (中亞烯谷集團有限公司), 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 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" below, 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 the 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;
"Deeds of Amendments"	collectively, the 1st Deed of Amendment, 2nd Deed of Amendment and 3rd Deed of Amendment;

"Deposit"	a 20% deposit of the total rent payable under the Tenancy Agreement payable by the PRC Subsidiary to China Asia Electronic within 10 days after the Tenancy Completion;
"Directors"	the directors of the Company;
"Enlarged Group"	the Company and its subsidiaries as enlarged by its acquisition of the right-of-use assets upon the completion of Transactions;
"Group"	the Company and its subsidiaries;
"Headlease"	the headlease entered into between China Asia Electronic as tenant and Shenzhen Shajing Bogang Cooperative Co., Ltd.*（深圳市沙井坣崗股份合作公司）(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 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 all 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"	Donvex Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, has been appointed 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 resolutions 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 CA Group (i.e. Subscriber 1 and Subscriber 2) which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons;
"Latest Practicable Date"	24 October 2023, being the latest practicable date prior to the despatch of this circular for ascertaining certain information referred to in this circular;
"Last Trading Date"	being the date of the Subscription Agreement (i.e., 6 June 2023);
"Listing Committee"	the listing committee of the Stock Exchange;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"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 indirectly through CA Group held 74.93% of the Shares as at the Latest Practicable Date;
"Original Subscribers"	collectively, Mr. Huang, Subscriber 1 and Xuhong, being the subscribers under the Subscription Agreement;
"PRC"	the People's Republic of China (for the purpose of this circular, 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, a company established in the PRC with limited liabilities and indirectly wholly-owned by the Company;

"SGM"	the special 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);
"Share(s)"	the share(s) of the Company;
"Shareholder(s)"	holder(s) of the Shares;
"Silicon Valley Industrial Park"	an industrial park located at No. 20, Gangtou Road, Shajing Street, Bao'an District, Shenzhen, the PRC;
"Specific Mandate"	the specific mandate to be granted by the Independent Shareholders to the Board at the SGM 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" or "Mr. Xiong"	Mr. Xiong Guoqiang* (熊國強), the beneficial owner and sole owner of Xuhong;
"Subscriber(s)"	collectively, CA Group and the two (2) Independent Subscribers, being the subscribers under the Subscription Agreement (as amended and supplemented by the Deeds of Amendments), 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 Original Subscribers on 6 June 2023 in relation to the Subscription, as amended and supplemented by the Deeds of Amendments;
"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;
"Subscription Long Stop Date"	29 February 2024 (or such later date as may be agreed by the relevant parties to the Subscription Agreement in writing), being the latest date to fulfill or satisfy the conditions precedent under the Subscription Agreement;
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules;
"Supplemental Tenancy Agreement"	the supplemental agreement to the Tenancy Agreement entered into between the PRC Subsidiary as tenant and China Asia Electronic as landlord on 12 October 2023;
"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 Codes on Takeovers and Mergers and Share Buy-backs published by the Securities and Futures Commission of Hong Kong;
"Tenancy Agreement"	the tenancy agreement dated 6 June 2023 and 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 at the Silicon Valley Industrial Park, as amended and supplemented by the Supplemental Tenancy Agreement;
"Tenancy Completion"	the handover of possession of the premises from China Asia Electronic to the PRC Subsidiary within seven (7) days after the fulfillment or waiver of all conditions precedent pursuant to the terms of the Tenancy Agreement;
"Tenancy Long Stop Date"	29 February 2024 (or such later date as may be agreed by the relevant parties to the Tenancy Agreement in writing), being the latest date to fulfill or satisfy the conditions precedent under the Tenancy Agreement;

"Transactions"	(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);
"Valuer"	LCH (Asia-Pacific) Surveyors Limited, an independent valuer engaged by the Company in respect of assessing the fair value of the lease under the Tenancy Agreement;
"Xuhong"	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 that is wholly owned by Subscriber 2; it is an Original Subscriber;
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong;
"RMB"	Renminbi, the lawful currency of the PRC;
"1st Deed of Amendment"	the deed of amendment to the Subscription Agreement entered into between the Company, Subscriber 1, CA Group, Xuhong and Mr. Huang on 21 July 2023 in relation to the Subscription;
"2nd Deed of Amendment"	the second deed of amendment to the Subscription Agreement entered into between the Company, Subscriber 1, Xuhong and CA Group on 29 August 2023 in relation to the Subscription;
"3rd Deed of Amendment"	the third deed of amendment to the Subscription Agreement entered into between the Company, Xuhong and the Subscribers on 12 October 2023 in relation to the Subscription; and
"%"	per cent.

For the purpose of this circular, conversion of RMB to HK$ is based on the exchange rate of RMB1.00 = HK$1.08. 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.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with "" and the Chinese translation of company names in English which are marked with "*" is for identification purposes only.*

CHINA ASIA VALLEY GROUP LIMITED
中亞烯谷集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 63)

Executive Directors:
Mr. Huang Binghuang
(Chairman and Chief Executive Officer)
Ms. Xia Ping
Ms. Wang Lijiao

Independent non-executive Directors:
Mr. Duan Rihuang
Mr. Wang Rongfang
Mr. Tso Sze Wai

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal office in Hong Kong:
Rooms 1237-1240
12th Floor
Sun Hung Kai Centre
30 Harbour Road, Wanchai
Hong Kong

31 October 2023

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE TENANCY AGREEMENT; (2) PROPOSED ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE; AND (3) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Company's announcements dated 6 June 2023, 21 July 2023, 29 August 2023 and 12 October 2023 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).

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 at the Silicon Valley Industrial Park for a total rent of approximately RMB1,413.4 million (equivalent to approximately HK$1,526.5 million).

Pursuant to the Tenancy Agreement, the PRC Subsidiary agrees to pay a Deposit of approximately RMB282.6 million (equivalent to approximately HK$305.2 million), being 20% of the total rent payable under the Tenancy Agreement, to China Asia Electronic within 10 days after the Tenancy Completion.

On 12 October 2023 (after trading hours), the PRC Subsidiary and China Asia Electronic entered into the Supplemental Tenancy Agreement, pursuant to which the parties agreed to (i) the addition of a condition precedent that China Asia Electronic having assigned all its existing tenancy agreements entered into with tenants to the PRC Subsidiary; and (ii) the extension of the Tenancy Long Stop Date to 29 February 2024 (or such later date as may be agreed by the PRC Subsidiary and China Asia Electronic in writing).

The Directors consider that the addition of the new condition precedent (e) is a strategic move which is anticipated to streamline the Company's operations, enhance efficiency and improve oversight over these tenancy agreements, while the extension of the Tenancy Long Stop Date is to allow ample time for the proper execution of the assignment. The additional condition precedent to the Tenancy Completion would give assurance to the Group that upon the Tenancy Completion, all tenancy agreements would be controlled by and for the benefit of the Group, which would in turn offer the Group certainty as to the income to be derived from the premises. The Directors believe that the Supplemental Tenancy Agreement is negotiated on an arm's length basis and on normal commercial terms, and the transaction contemplated thereunder is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Subscription Agreement

As disclosed in the annual 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 Original Subscribers, pursuant to which the Original 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.

After entering into the Subscription Agreement, Mr. Huang communicated to the Board his strategic intent to streamline his investments, inclusive of the Convertible Bond he has agreed to subscribe. He aimed to consolidate his shareholding in the Company through CA Group, the controlling shareholder of the Company, which is wholly owned by him.

As an executive Director, the chairman, and chief executive officer of the Company, Mr. Huang believes that replacing himself with CA Group as a subscriber of the Convertible Bond (the "**Replacement**") would (i) enhance the public perception of the Subscription since CA Group, a corporate entity, is expected to convey a stronger sense of stability and professionalism to both Shareholders and the public; and (ii) enable him to more adeptly manage his shareholding in the Company, potentially leading to more focused decision-making and optimized resource allocation.

In assessing the Replacement, the Board has considered the following factors: (i) CA Group is wholly owned by Mr. Huang and hence the Replacement would not bring any substantive change to the transaction structure, and would not affect the stability of the ultimate beneficial ownership of the Company; and (ii) the Replacement will not adversely affect the Company's interest given that the subscription amount of the Convertible Bond is payable in full by CA Group upon the Subscription Completion. Taking into account the above-mentioned, the Board believes that the Replacement is fair and reasonable, and aligns with the Company's objective development plan.

Given the above, on 21 July 2023 (after trading hours), the Company entered into the 1st Deed of Amendment with Mr. Huang, CA Group, Subscriber 1 and Xuhong, pursuant to which the parties agreed that, amongst others, CA Group shall replace Mr. Huang as a subscriber of the Convertible Bond in the principal amount of HK$233,450,000 in accordance with the terms and conditions of the Subscription Agreement.

On 29 August 2023 (after trading hours), as additional time was required to fulfill the conditions precedent to the Tenancy Agreement and the Subscription Agreement, the Company entered into the 2nd Deed of Amendment with CA Group, Subscriber 1 and Xuhong, pursuant to which the parties agreed that the Subscription Long Stop Date shall be extended to 30 November 2023 (or such later date as may be agreed by the Subscribers and the Company in writing).

On 12 October 2023 (after trading hours), the Company entered into of the 3rd Deed of Amendment with CA Group, Subscriber 1, Xuhong and Subscriber 2, pursuant to which the parties agreed that, amongst others, (i) Subscriber 2 shall replace Xuhong as a subscriber of the Convertible Bond in the principal amount of HK$24,760,000 in accordance with the terms and conditions of the Subscription Agreement (the "**Second Replacement**"); and (ii) the Subscription Long Stop Date shall be extended to 29 February 2024 (or such later date as may be agreed by the Subscribers and the Company in writing). The Second Replacement was necessitated due to certain operational constraints and practical difficulties experienced by Xuhong in relation to, amongst others, the opening of a Hong Kong corporate bank account for the Subscription. To ensure a smooth consummation of the transaction and uphold the interests of our stakeholders, Subscriber 2, being the sole owner of Xuhong, has stepped in as the new subscriber for the Convertible Bond. In assessing the Second Replacement, the Board has considered the following factors: (i) Subscriber 2 is the sole owner of Xuhong and hence the Second Replacement would not cause any significant alteration to the transaction structure, and would not affect the stability of the ultimate beneficial ownership of the Company; and (ii) the Second Replacement will not adversely affect the Company's interest given that the subscription amount of the Convertible Bond is payable in full by Subscriber 2 upon the Subscription Completion. As such, the Board believes that the Second Replacement is fair and reasonable, and aligns with the Company's objective and development plan.

The Conversion Shares will be issued under the Specific Mandate to be sought from the Independent Shareholders at the SGM. 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 resolutions by the Independent Shareholders at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) details of the Transactions; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Donvex Capital to the Independent Board Committee and the Independent Shareholders in relation to the Transactions; and (iv) a notice to convene the SGM.

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 at the Silicon Valley Industrial Park. The major terms of which are set out below:

Date	:	6 June 2023* * *as amended and supplemented by the Supplemental Tenancy Agreement entered into between PRC Subsidiary and China Asia Electronic on 12 October 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 at 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 the Tenancy Completion
Total rent	:	RMB1,413.4 million (equivalent to approximately HK$1,526.5 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$305.2 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 manner[1]: (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 (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.

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 – RMB174.3 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 utilised. 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.

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 Completion, 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 fulfillment 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 SGM 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;

(d) there being no material adverse effect (or change) (whether actual or potential) up to the handover of the premises under the Tenancy Agreement; and

(e) China Asia Electronic having assigned all its existing tenancy agreements entered into with tenants to the PRC Subsidiary.

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 conditions (d) and (e) 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.

Generally, material adverse effect refers to any occurrence, condition or change that is, or could reasonably be expected to become materially adverse to (a) operations or condition or prospects of the premises to be rented by the Group under the Tenancy Agreement or (b) the ability of China Asia Electronic to consummate the transactions contemplated in the Tenancy Agreement on a timely basis. The Company currently envisages that such events may include, without limitation, material defects (e.g. title irregularities) associated with the property which may prevent the Group from sub-leasing the property to sub-tenants, material changes that may adversely affect the valuation or condition of the premises which may in turn materially affect the ability of the Group to sub-lease the property or the financial viability or value of doing so, or events (e.g. any title irregularities or condition) which prevent China Asia Electronic from proceeding to the Tenancy Completion (e.g. the termination of the Headlease). As condition precedent (d) above gives the Group flexibility and the right to walk away from the transaction should there be events or changes which would materially and adversely affect the legitimacy or validity of the transaction or the profitability or the viability of the business model in respect of the lease under the Tenancy Agreement, the Directors are of the view that such provision is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Furthermore, condition (e) above establishes an assignment process to facilitate an orderly and seamless transfer of the tenancy agreements entered into with individual tenants from China Asia Electronic to the Group, thereby ensuring that all the individual tenancy agreements will be entered into between individual tenants and the Group upon the Tenancy Completion. This would have the effect of segregating China Asia Electronic's connection with individual tenants, enhance the autonomy and independence enjoyed by the Group in conducting the sub-leasing business, and hence safeguard the Company's interest. The Board believes that the assignment from China Asia Electronic does not have any adverse impact on the Company's reliance on its controlling shareholder as the Group will be the only party dealing with the individual tenants upon the Tenancy Completion. This arrangement is intended to achieve a clean segregation of the existing tenancy relationship between the individual tenants and China Asia Electronic.

If the above conditions are not fulfilled or waived on or before the Tenancy Long Stop Date 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 any 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 option to postpone the Tenancy Long Stop Date by mutual agreement between the parties is common in transactions of a similar nature and is consistent with market practice. This provision is in place because, while the parties to the Tenancy Agreement and Subscription Agreement are committed to the Transactions, they acknowledge that unforeseen circumstances may necessitate additional time to fulfill the conditions precedent to the two agreements. Incorporating such flexibility benefits the parties and the Board considers this arrangement to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will consider a range of factors in determining whether or not to consent to any further postponement, for example, the duration of time in the postponement, the nature of the events leading to a postponement, the likeliness of proceeding to completion, the potential impact to the Company in terms of timeliness of completion and an overall assessment on the pros and cons associated with a postponement against the termination of the Transactions. The Company will only agree to a postponement if the revised timeline is, on balance, fair and reasonable and in the interests of the Company and the Shareholders as a whole in the circumstance. In the event that the Tenancy Long Stop Date has to be extended beyond 29 February 2024, the Company will re-comply with all applicable Listing Rule requirements (including but not limited to obtaining shareholders' approval as required under the Listing Rules). However, based on the current information available to the Company and the discussion between the parties, as at the Latest Practicable Date, the Board did not envisage any material impediment in fulfilling the conditions precedent on or before the Tenancy Long Stop Date.

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

As at the Latest Practicable Date, none of the conditions precedent stipulated under the Tenancy Agreement have been fulfilled.

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 at 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 authorisation 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 authorisation to the Group to conduct property management services at the Silicon Valley Industrial Park, including the right to solicit and negotiate service terms with end tenants.

Currently, although the Group (as an authorised property management services provider) has the right to offer property management services at the Silicon Valley Industrial Park, it must separately and independently negotiate and execute property management services agreements with third party tenants. The Group would conduct arm-length negotiations with third-party tenants to finalise 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 at the Silicon Valley Industrial Park will be rolled over by the entering into of new individual tenancy agreements with individual tenants. The Tenancy Agreement gives the Group the right to continue providing property management services at the Silicon Valley Industrial Park, including the negotiation and entering into of individual tenancy agreements with tenants.

In order to simplify the negotiation process and integration of the Group's services in respect of each tenant, the terms of the Group's tenancy and property management services will be consolidated into one single tenancy agreement for each tenant. For tenants with which the Group has existing property management agreements, their existing property management agreements will be superseded by a new all-in-one tenancy agreement that encompasses both the Group's tenancy and property management services. These new agreements will ensure that property management services continue seamlessly. The Group will separately negotiate and execute these new all-in-one tenancy agreements with third party tenants independent of China Asia Electronic. Such arrangement would enable the Group to conduct its tenancy and property management business independent from its controlling shareholders, and hence does not represent any change to the established relationship between the Company and its controlling shareholders or the agreement under the Tenancy Agreement. For more detailed analysis on the reliance on the connected persons, please refer to the below section headed "Analysis of Reliance on the Connected Persons".

Basis for determining the rent 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 initial appraised value of the right-of-use asset under the Tenancy Agreement at the amount of RMB1,205.6 million (equivalently to approximately HK$1,350.3 million) as at 30 April 2023. As at 31 August 2023, the finalised appraised value of the right-of-use asset amounted to RMB1,058.2 million (equivalently to approximately HK$1,142.9 million) according to the valuation report prepared by the Valuer set out in Appendix III to this circular. The valuation, prepared by the Valuer engaged by the Company and using income approach, takes into account the expected income from the Tenancy Agreement, which was then discounted to its present value.

Meanwhile, 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 RMB1,064.4 million (equivalent to approximately HK$1,149.6 million) as at 31 August 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".

Essentially, while the appraised value in the valuation report prepared by the Valuer reflects the expected cash inflow from the Tenancy Agreement, the value of the right-of-use asset to be recognised by the Company represents the expected cash outflow. It is therefore favourable for the Company that the former value exceeds the latter, as it indicates that the projected benefits pursuant to the Tenancy Agreement surpass its associated costs. Consequently, entering into the Tenancy Agreement is both fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 the outbreak of COVID-19 pandemic, 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.

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

(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 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 Tenancy 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)*
1st Year	137.0	112.4
2nd Year	143.9	118.0
3rd Year	151.1	123.9
4th Year	158.6	130.1
5th Year	166.6	136.6
6th Year	174.9	143.4
7th Year	183.6	150.6
8th Year	192.8	158.1
9th Year	202.5	166.0
10th 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 in good faith. The Directors also consider that a discount of more than 15% as secured by the PRC Subsidiary is favourable in this type of agreement, given that typically, rent for a tenancy agreement is set based on current market rates. In this instance, it is the rent that China Asia Electronic currently receives from its tenants at the Silicon Valley Industrial Park.

As illustrated above, the projected rental income from the Silicon Valley Industrial Park for 2023-2033 accounts for a 5% annual increase in rental income. The Directors find this rate reasonable, believing it accurately reflects both the current market conditions and the future growth of the park. Thus, the Directors consider that the expected rental income from the Tenancy Agreement mirrors the market rate of the Silicon Valley Industrial Park. In this regard, any discount, even one as slight as 1%, inherently results in savings. Given that the Tenancy Agreement spans a decade, even a 1% discount accumulates to significant savings over time, and even more so at 18%.

More critically, under the Performance Undertaking, China Asia Electronic has irrevocably undertaken to the PRC Subsidiary that, if the rental payable by the PRC Subsidiary under the Tenancy Agreement for any rental payment period exceeds the actual rental payment received by the PRC Subsidiary from its sub-tenants, the rental income actually received by the PRC Subsidiary will be considered as the full rental payment owed to China Asia Electronic for that period. In essence, China Asia Electronic will completely forgo the Shortfall. This condition implies that in scenarios where the PRC Subsidiary receives no rental income under the Tenancy Agreement, the effective discount could surge to a full 100%. Given this wide potential discount range, from 18% to even 100%, the Directors consider it not only challenging but also not particularly meaningful to identify a market benchmark to support the fairness and reasonability of such a significant discount.

Given that all discounts are beneficial, but an 18% discount on ten years of expected rental income is particularly favourable to the Company, 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

Financial challenges and strategic focus on property management

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 the 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. Also, according to the interim report for the Company for the six months ended 30 June 2023 (the "**2023 Interim Report**"), as at 30 June 2023, the Company had net current liabilities of approximately HK$218.5 million, with approximately HK$5.7 million of cash and cash equivalents. These show 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.

Risk mitigation

In addition, while Shenzhen Shajing Bogang Cooperative Co., Ltd.*(深圳市沙井坐崗股份合作公司)("**Shenzhen Shajing**"), the landlord in the Headlease, retains the unilateral right to terminate the Headlease with China Asia Electronic, the latter does not possess a corresponding right to exit the Tenancy Agreement. In other words, irrespective of the status or continuance of the Headlease between Shenzhen Shajing and China Asia Electronic, China Asia Electronic will be bound by the Tenancy Agreement, including compensatory obligations should premature termination of the Headlease occur.

Pursuant to the applicable laws in the PRC, provided that the Company does not breach or terminate the Tenancy Agreement, both Shenzhen Shajing and China Asia Electronic will be indirectly and directly liable to compensate the PRC Subsidiary for any losses incurred should the Headlease be terminated or there be a breach of the Tenancy Agreement.

Pursuant to the Tenancy Agreement, 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.

On the other hand, the Company considers that there is little incentive for Shenzhen Shajing to terminate the Headlease. This is because, according to the Headlease with China Asia Electronic, if it opts to terminate the Headlease, it would need to compensate China Asia Electronic double the deposit, cover any additional expenses related to the construction work carried out by the latter, and reimburse China Asia Electronic for any losses resulting from the termination. Therefore, the Company considers it unlikely that Shenzhen Shajing will terminate the Headlease.

In view of the above, the Board believes that risks arising from the Headlease's termination are minimal for the Group, and taking into account the protective provisions of the Tenancy Agreement, the Board considers that the entering into of the Tenancy Agreement is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Board's assessment

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 as 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 (including the members of the Independent Board Committee whose views are included in the letter from the Independent Board Committee on page 44 of this circular after being advised by the Independent Financial Adviser) consider that the terms of the Tenancy Agreement are on normal commercial terms or better; and the transactions contemplated under the Tenancy Agreement are entered into in the ordinary and usual course of business of the Group, 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 taking into account 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 given 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 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 change 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 property management and other related 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 constructing building facilities for its clients in the PRC.

As at the Latest Practicable Date, 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 a company established 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 indirectly through CA Group held 74.93% of the Shares and hence is a controlling shareholder of the Company as at the Latest Practicable Date.

China Asia Electronic

China Asia Electronic is a property investment company established in the PRC with limited liability. As at the Latest Practicable Date, 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, SZ Xinghuo Chuangke, 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 RMB1,064.4 million (equivalent to approximately HK$1,149.6 million) as at 31 August 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.

FINANCIAL EFFECTS OF THE TRANSACTIONS CONTEMPLATED UNDER THE TENANCY AGREEMENT

Upon commencement of the lease term under the Tenancy Agreement, the consolidated total assets of the Group will increase by not more than approximately RMB939.3 million (equivalent to approximately HK$1,014.4 million), and an equivalent amount of lease liabilities will be recognised at the same time.

The right-of-use asset will be depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Interest expenses on the lease liabilities will be recognised at 7.2% per annum. After the commencement date of the lease, the lease liabilities are adjusted by interest accretion and lease payments.

PROPOSED ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE

On 6 June 2023 (after trading hours), the Company entered into the Subscription Agreement with the Original Subscribers, pursuant to which the Original 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.

On 21 July 2023 (after trading hours), the Company entered into the 1st Deed of Amendment with Mr. Huang, CA Group, Subscriber 1 and Xuhong, pursuant to which the parties agreed that CA Group shall replace Mr. Huang as a subscriber of the Convertible Bond in the principal amount of HK$233,450,000 in accordance with the terms and conditions of the Subscription Agreement. On 29 August 2023, the Company entered into the 2nd Deed of Amendment with CA Group, Subscriber 1 and Xuhong, pursuant to which the parties agreed that the Subscription Long Stop Date shall be extended to 30 November 2023 (or such later date as may be agreed by the parties in writing).

On 12 October 2023, the Company entered into the 3rd Deed of Amendment with Xuhong and the Subscribers, pursuant to which (i) the parties agreed that Mr. Xiong shall replace Xuhong as a subscriber of the Convertible Bond in the principal amount of HK$24,760,000 in accordance with the terms and conditions of the Subscription Agreement; and (ii) the Subscription Long Stop Date shall be extended to 29 February 2024 (or such later date as may be agreed by the Subscribers and the Company in writing).

Set out below are the principal terms of the Subscription Agreement (as amended and supplemented by the Deeds of Amendments):

SUBSCRIPTION AGREEMENT

Date

6 June 2023 (after trading hours)*

* *as amended and supplemented by (i) the 1st Deed of Amendment entered into between the Company, Mr. Huang, CA Group, Subscriber 1 and Xuhong on 21 July 2023; (ii) the 2nd Deed of Amendment entered into between the Company, CA Group, Subscriber 1 and Xuhong and (iii) the 3rd Deed of Amendment entered into between the Company, Xuhong and the Subscribers on 12 October 2023.*

Parties

Issuer : The Company

Subscribers : (i) CA Group;

(ii) Zhongjun Holding Group Company Limited (中軍控股集團有限公司) (being an Independent Subscriber); and

(iii) Mr. Xiong (being an Independent Subscriber).

As at the Latest Practicable Date, 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
CA Group	233,450,000
Total	**353,360,000**

Conditions precedent

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

(a) the passing of resolutions by the Independent Shareholders at the SGM convened in accordance with the Listing Rules to approve 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 fulfillment 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 Subscription 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. In the event that the Subscription Long Stop Date has to be extended beyond 29 February 2024, the Company will re-comply with all applicable Listing Rule requirements (including but not limited to obtaining shareholder approval as required under the Listing Rules). However, based on the current information available to the Company and the discussion between the parties, as at the Latest Practicable Date, the Board did not envisage any material impediment in fulfilling the conditions precedent on or before the Subscription Long Stop Date.

As at the Latest Practicable Date, except for condition (e), all other conditions precedent stipulated under the Subscription Agreement have not been fulfilled.

Subscription Completion

Subject to the fulfillment 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 10.7% to the closing price of HK$0.112 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 33.3% to the closing price of HK$0.150 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) 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 Last Trading Day;

(d) 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 Last Trading Day;

(e) 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 Last Trading Day;

(f) a premium of approximately 6.4% over 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 Last Trading Day;

(g) a premium of approximately 14.9% over 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 Last Trading Day;

(h) a premium of approximately 23.5% over 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 Last Trading Day; and

(i) 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 latest audited net assets of HK$131,189,000 as at 31 December 2022 and 2,819,102,084 Shares in issue as at the Latest Practicable Date.

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 net conversion price will be approximately HK$0.0997 per Conversion Share, which is derived from dividing the net proceeds of HK$352,360,000 by the aggregate of 3,533,600,000 Conversion Shares that are set to be allotted and issued to the Subscribers upon conversion in full of the Convertible Bond.

The Directors (including the members of the Independent Board Committee whose views are included in the letter from the Independent Board Committee on page 44 of this circular 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*

If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation or sub-division by the revised nominal amount and dividing the result by the former nominal amount.

Each such adjustment shall be effective after the trading hours of the Stock Exchange on the trading day immediately preceding the date of the consolidation or sub-division.

(b) *capitalisation issue*

If and whenever the Company shall issue (other than by way of scrip dividend or constituting a capital distribution) Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price should be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the total nominal value of the Company's share capital before the issue, and then dividing by the aggregate nominal value of the Company's share capital after the issue.

Each such adjustment shall be effective (if appropriate retroactively) on the date of such issue or if a record date is fixed, the day immediately after such record date.

(c) *scrip dividend*

If and whenever the Company issues Shares to its Shareholders (in their capacity as such) according to a scrip dividend scheme, and if the product of the market price on the date of announcement of the relevant issue and the number of such Shares to be issued exceeds the related cash dividend or relevant part (and the scrip dividend does not constitute a capital distribution), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the aforementioned distribution or grant by the following fraction:

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

where:

A = the number of Shares in issue immediately before such issue;

B = aggregate number of Shares issued pursuant to such scrip dividend scheme multiplied by the following fraction (i) the numerator being the amount of the whole, or the relevant part, of the relevant cash dividend, and (ii) the denominator being the market price of such Shares issued by way of scrip dividend;

C = the aggregate number of Shares issued pursuant to such scrip dividend scheme.

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

(d) *capital distribution*

If and whenever the Company shall make any capital distribution to Shareholders (in their capacity as such) (excluding adjustments to the Conversion Price pursuant to sub-paragraph (c) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such distribution or grant by the following fraction:

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

where:

A = the market price per Share on the date of announcement of the capital distribution or grant (as the case may be); and

B = the fair market price on the day of announcement of the capital distribution for each Share, as determined by an approved accountant or valuer, of the relevant capital distribution or rights distribution.

Provided that (a) if in the opinion of the approved accountant or valuer, the use of the fair market value as aforesaid produces a result which is materially inequitable, the approved accountant or valuer may determine (and in such event the above formula shall be construed as if B meant) the amount of the said market price which should properly be attributed to the value of the capital distribution or rights; and (b) the provisions of this paragraph shall not apply in relation to the issue of Shares paid out of profits or reserves and issued pursuant to scrip dividend.

Such adjustment shall become effective (if appropriate retroactively) on the date that such capital distribution or grant is actually made or if a record date is fixed, immediately after such record date.

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 an approved independent financial advisor 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).

The interest rate is determined after arm's length negotiations between the Company and the Original Subscribers, taking into consideration, among other things, the prevailing market situation, prime loan rates from major banks of approximately 5.8%, and the interest rates on the Company's existing loans of approximately 5.6%.

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, purchased or 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 (as defined below), 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 SGM 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 Latest Practicable Date; 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 Latest Practicable Date 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 SGM.
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.

It is therefore expected that the issue of the Convertible Bond will not lead to a change of control of the Company. 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 Bond 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 Bond 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 Original 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 an increase after the date of the Subscription Agreement 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, which tend to even out short-term volatilities and offer a more consistent and reliable benchmark. In this regard, it should be noted that the Conversion Price of HK$0.1 represents a premium of approximately (i) 6.4% over the average closing price of HK$0.094 per Share for the last 60 trading days immediately prior the Last Trading Day; (ii) 14.9% over the average closing price of HK$0.087 per Share for the last 180 trading days immediately prior the Last Trading Day; and (iii) 23.5% over the average closing price of HK$0.081 per Share for the last 365 trading days immediately prior the Last Trading Day as quoted on the Stock Exchange.

It should be highlighted that when comparisons are made with reference to average stock prices over longer durations, such as 180 and 365 trading days, it is shown that the Conversion Price is at a premium and is both competitive for and favourable to the Company. The Company considers that the comparison with historical prices of the Shares over a longer timespan represents a more meaningful comparison, as it could reduce the influence of short-term market volatilities and present a more objective picture of the intrinsic value of the Company. Although the Conversion Price is discounted compared to recent Share prices, it remains higher than the market valuation of the Company over a longer term (which may itself be the true value better received and recognised by the public investors).

Considering the above and recognising 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 (including the members of the Independent Board Committee whose views are included in the letter from the Independent Board Committee on page 44 of this circular 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:

(i) approximately HK$306,553,000, being 87.0% of the estimated net proceeds, for payment of the Deposit; and

(ii) approximately HK$45,807,000, being 13.0% of the estimated net proceeds, for general working capital of the Group, including to support the ongoing operations and business activities of the Group, such as financing staff costs, repayment of current liabilities, and optimising the debt position and enhancing the liquidity of the Group. The actual allocation of the net proceeds earmarked for general working capital will be determined based on the prevailing business conditions and financial needs of the Group at the relevant times, allowing the Company to maintain flexibility in responding to business challenges and opportunities.

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$305.2 million) pursuant to the Tenancy Agreement and the Group's net current liabilities of approximately HK$216,066,000 as at 31 December 2022 and the unaudited net current liabilities of approximately HK$218.5 million as at 30 June 2023, the Directors are of the view that the Group should fund the Deposit through the issue of the Convertible Bond.

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% and around 190% as at 31 December 2022 and 30 June 2023 respectively; and (ii) its loss position would unlikely allow it to obtain favourable borrowing rates from financial institutions. In addition, the Company had made inquiries to the three principal banks of the Company regarding the terms of additional facilities but was given to understand that the interest payment plus the handling fees would likely be significantly higher than the rate the Company could enjoy under the Convertible Bond and the Company will be required to provide collaterals. The interest rate of the Convertible Bond of 3.6% is also significantly lower than the HK$ prime lending rate of approximately 5.8% adopted by major commercial banks in Hong Kong, such as HSBC and Bank of China (Hong Kong). As such, the Board is of the view that the terms (including the interest rate) of the Convertible Bond, which were determined by arm's length negotiations between the Company and the Original Subscribers based on the aforementioned market situation, is more favourable to and in the interest of the Company.

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. Although the Company has not yet reached out to any potential underwriter(s) or placing agent to discuss the underwriting fee/placing commission, the Company considers that, in view of the current economic condition and relatively weak market sentiment, even if the underwriting fee/placing commission turns out to be lower than the interest rate of the Convertible Bond in the unlikely event, the issue of Convertible Bond would still offer the Company a substantially higher level of certainty and a more streamlined and predictable financing process, given that the Subscription is not dependent upon market response or conditions, which simplifies the fundraising process, eliminates the administrative burdens associated with rights issues or open offers, and provides a predictable schedule for interest payments, thus enhancing cash flow management of the Group.

Given the above, the Directors (including the members of the Independent Board Committee whose views are included in the letter from the Independent Board Committee on page 44 of this circular 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

CA Group

CA Group is a company incorporated under the laws of the British Virgin Islands with limited liability and is wholly-owned by Mr. Huang. It is principally engaged in investment holding. As at the Latest Practicable Date, it held 2,112,395,735 Shares, representing approximately 74.93% of the issued share capital of the Company.

Subscriber 1

Subscriber 1 is a company incorporated in Hong Kong with limited liability and is principally engaged in the operation of internet big data platforms, and the 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 the beneficial owner and the sole owner of Xuhong. Xuhong 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.

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 Latest Practicable Date 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 Latest Practicable Date up to the issue of the Conversion Shares):

	As at the Latest Practicable Date		**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*
CA Group *(Note 1)*	2,112,395,735	74.93%	4,446,895,735	70.00%
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**	**100.00%**	**6,352,702,084**	**100.00%**

Notes:

1. CA Group is wholly-owned by Mr. Huang and hence Mr. Huang is deemed to be interested in the Shares held by CA Group.

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 18.54% resulting from the Subscription. Taking into account the following factors:

(i) The immediate capital needs of the Group to fund the Deposit to proceed with the Tenancy Agreement, which is expected to enhance the financial performance of the Group and, in turn, enhance the value of the Shares over the long term, ultimately benefiting all shareholders;

(ii) The number of Conversion Shares and the corresponding theoretical dilution effect are determined by the Deposit amount and the Conversion Price;

(iii) The challenges in obtaining financing given the Group's high gearing ratio of around 184% as at 31 December 2022, and the obstacles presented by other equity fundraising options given their associated costs, time constraints, and uncertainties, as detailed in the above section headed "Reasons for and benefits of entering into the Subscription Agreement and the issue of the Convertible Bond";

(iv) If the Subscribers opt to convert the Convertible Bond into Shares, it will demonstrate their confidence in the Company's future growth potential, offering a positive signal to existing Shareholders;

(v) The Directors have considered alternative ways to fund the Deposit other than the issue of the Convertible Bond, which were concluded as not feasible, not beneficial or inappropriate; and

(vi) The Board's assessment that the Conversion Price is fair and reasonable as discussed in the above section headed "Principal terms of the Convertible Bond",

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 Latest Practicable Date.

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 Latest Practicable Date, Mr. Huang is a controlling shareholder of the Company who indirectly through CA Group held 74.93% of the Shares. Accordingly, Mr. Huang and China Asia Electronic are connected persons 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.

Subscription Agreement

As at the Latest Practicable Date, CA Group held 2,112,395,735 Shares, representing approximately 74.93% of the issued share capital of the Company. Hence, CA Group, being one of the Subscribers, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, 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 controls China Asia Electronic and holds the entirety of the shares in CA Group, he is considered to be materially interested in and has therefore abstained from voting on the resolutions of the Board to approve the Transactions. Except for Mr. Huang, no other Director has a material interest in the Transactions and was required to abstain from voting on the relevant resolutions.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Transactions. Donvex Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The SGM will be convened and held for the Independent Shareholder to consider and, if thought fit, approving the Transactions.

As at the Latest Practicable Date, Mr. Huang indirectly through CA Group held 2,112,395,735 Shares, representing 74.93% of the issued share capital of the Company. As Mr. Huang controls China Asia Electronic and CA Group is a Subscriber, Mr. Huang and CA Group are considered to be materially interested in and 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 SGM.

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 SGM.

SGM

A notice convening the SGM to be held at Rooms 1237-40, 12/F., Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong on Friday, 17 November 2023 at 11:00 a.m. is set out on pages SGM-I to SGM-III of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.00063.cn). Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than Wednesday, 15 November 2023 at 11:00 a.m. (Hong Kong time) (being not less than 48 hours before the time of the SGM) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjournment thereof if they so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 44 of this circular and the letter from Donvex Capital set out on pages 45 to 91 of this circular. The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolutions 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).

The Directors (including the members of the Independent Board Committee whose views are included in the letter from the Independent Board Committee on page 44 of this circular after being advised by the Independent Financial Adviser) are of the opinion that (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) are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and therefore recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Transactions.

FURTHER INFORMATION

Your attention is also drawn to the additional information in the appendices to this circular.

The Tenancy Completion and Subscription Completion are subject to the fulfilment or waiver of their respective conditions as set out in this circular. As the Transactions may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt and as to actions that they should take.

Yours faithfully,
For and on behalf of the Board
China Asia Valley Group Limited
Huang Binghuang
Chairman and Chief Executive Officer

CHINA ASIA VALLEY GROUP LIMITED
中亞烯谷集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 63)

31 October 2023

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 31 October 2023 (the "**Circular**") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular, unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the Transactions were entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Donvex Capital has been appointed to advise us and the Independent Shareholders in respect of the Transactions. Details of its advice are set out on pages 45 to 91 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 7 to 43 of the Circular.

Having considered the terms of the Transactions and the advice of Donvex Capital, we are of the opinion that, (i) the Tenancy Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of business of the Group, they are on normal commercial terms or better, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) despite the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate) were not entered into in the ordinary and usual course of business of the Group, they are on normal commercial terms or better, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the resolutions to be proposed at the SGM to approve the Transactions.

Yours faithfully,
For and on behalf of
Independent Board Committee of
China Asia Valley Group Limited

Mr. Duan Rihuang **Mr. Wang Rongfang** **Mr. Tso Sze Wai**
Independent Non-executive Directors

The following is the full text of the letter of advice from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Donvex
富域資本
Donvex Capital Limited
富域資本有限公司

Unit 2502, 25/F
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

31 October 2023

The Independent Board Committee and the Independent Shareholders of
China Asia Valley Group Limited

Dear Sir/Madam,

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

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to:

(i) the Tenancy Agreement between the PRC Subsidiary, a wholly-owned subsidiary of the Company, as tenant, and China Asia Electronic, as landlord, 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),

details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 31 October 2023 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

As disclosed in the Letter from the Board, on 6 June 2023:

(i) 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 at the Silicon Valley Industrial Park for a total rent of approximately RMB1,413.4 million (equivalent to approximately HK$1,526.5 million) with a term of ten years; and

(ii) the Company entered into the Subscription Agreement with Mr. Huang (subsequently replaced by China Asia Group Inc. pursuant to the Deed of Amendment entered into by the Company, Mr. Huang and China Asia Group Inc.), Subscriber 1 and Xuhong International Corporation (旭宏國際有限公司) ("**Xuhong**") (subsequently replaced by Subscriber 2 pursuant to the 3rd Deed of Amendment entered into by the Company, China Asia Group Inc., Xuhong, Subscriber 1 and Subscriber 2), 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.

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 at the Latest Practicable Date, Mr. Huang is a controlling shareholder of the Company and is deemed to be interested in 74.93% of the Shares. 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 such, 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 a connected person of the Company under Chapter 14A of the Listing Rules.

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.

Given that China Asia Group Inc. is wholly-owned by Mr. Huang and is one of the Subscribers, 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.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Tso Sze Wai, Mr. Wang Rongfang and Mr. Duan Rihuang, has been established to advise the Independent Shareholders on (i) whether the terms of the Tenancy Agreements, the Subscription Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business, on normal commercial terms, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect to the relevant resolution(s) to approve the Tenancy Agreement, Subscription Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate) at the special general meeting (the "**SGM**"). In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, 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. Meanwhile, China Asia Group Inc., as one of the Subscribers, is wholly owned by Mr. Huang. As Mr. Huang also 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 SGM.

INDEPENDENCE

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

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we have received or will receive any fees or benefits from the Company.

Accordingly, we are independent of and not connected with the Group pursuant to Rule 13.84 of the Listing Rules and qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect 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).

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company (the "**Management**"). We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the SGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view regarding (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) and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group.

Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in the market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any Shares or any other securities of the Company.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with (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), and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

I. THE TENANCY AGREEMENT

A. Background information of the parties

1. 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 tables below set forth a summary of the consolidated audited financial information of the Group extracted from (i) the annual reports of the Group for the year ended 31 December 2021 ("**FY2021**") and 31 December 2022 ("**FY2022**"); and (ii) the announcement of the interim result of the Group for the six months ended 30 June 2022 ("**6M2022**") and 30 June 2023 ("**6M2023**"):

	FY2021 *HK$'000* (Audited)	**FY2022** *HK$'000* (Audited)	**6M2022** *HK$'000* (Unaudited)	**6M2023** *HK$'000* (Unaudited)
Total revenue	37,810	39,875	20,800	20,007
Other income	504	1,010	559	721
Gain on disposal of subsidiaries	–	20	10	–
Gain on deconsolidation of subsidiaries	632	–	–	–
Staff costs	(17,186)	(18,503)	(8,446)	(10,685)
Depreciation and amortisation expenses	(1,827)	(1,513)	(736)	(742)
Other property management related expenses	(7,047)	(9,355)	(3,369)	(4,008)
Other operating and administrative expenses	(9,185)	(7,297)	(3,026)	(4,092)
Fair value loss on investment properties	–	(46,000)	–	–
(Loss)/profit from operations	3,701	(41,763)	5,792	1,201
(Loss)/profit for the year/period	(330)	(47,007)	2,130	(2,797)

	As at		
	31 December 2021	**31 December 2022**	**30 June 2023**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Unaudited)
Non-current assets	394,432	347,255	348,400
– Investment properties	392,000	346,000	346,000
– Right-of-use assets	1,240	364	1,448
Current assets	29,201	24,823	26,399
– Cash and cash equivalents	5,991	3,033	5,720
– Pledged bank deposits	13,248	14,891	11,413
Total assets	423,633	372,078	374,799
Current liabilities	244,221	240,889	244,948
– Bank borrowings	160,000	160,000	160,000
Net current liabilities	215,020	216,066	218,549
Non-current liabilities	184	–	1,026
Total liabilities	244,405	240,889	245,974
Net assets	179,228	131,189	128,825

Total revenue

The consolidated revenue of the Group increased from approximately HK$37.8 million for FY2021 to approximately HK$39.9 million for FY2022, which was mainly attributable to the increase in the revenue generated from the provision of property management and other related services.

The consolidated revenue of the Group decreased from approximately HK$20.8 million for 6M2022 to approximately HK$20.0 million for 6M2023, which was mainly due to the decrease in revenue generated from property management and other related services as a result of the decrease in the areas under management during the period.

Loss for the year

The consolidated loss for the year of the Group increased from approximately HK$0.3 million for FY2021 to approximately HK$47.0 million for FY2022. The main reason for this increase in the loss for the year was the fair value loss on investment properties in Hong Kong of approximately HK$46 million, which was caused by the decline in the average rental income generated from investment properties.

The Group recorded consolidated loss for 6M2023 of approximately HK$2.8 million as compared to the consolidated profit of approximately HK$2.1 million for 6M2022. The main reasons for the loss for 6M2023 were (i) the increase in staff costs, legal and professional fees and finance costs on bank loans; and (ii) the decrease in consolidated revenue of the Group during 6M2023.

Cash and cash equivalents

The cash and cash equivalents of the Group decreased from approximately HK$6.0 million as at 31 December 2021 to approximately HK$3.0 million as at 31 December 2022, which were mainly due to the decrease in net cash generated from financing activities as a result of the repayment of the amount due to the immediate holding company and the amount due to a shareholder of the immediate holding company during FY2022.

The cash and cash equivalents of the Group increased from approximately HK$3.0 million as at 31 December 2022 to approximately HK$5.7 million as at 30 June 2023, which was mainly due to the change in the pledged bank deposits to cash and cash equivalents during 6M2023 by approximately HK$3.5 million.

Total assets

The consolidated total assets of the Group decreased from approximately HK$423.6 million as at 31 December 2021 to approximately HK$372.1 million as at 31 December 2022, which was mainly due to the decrease in the carrying amount of the investment properties of the Group by approximately HK$46 million.

The consolidated total assets of the Group increased from approximately HK$372.1 million as at 31 December 2022 to approximately HK$374.8 million as at 30 June 2023, which was mainly attributable to the increase in the right-of-use assets and cash and cash equivalents of the Group.

Bank borrowings

The bank borrowings of the Group are arranged at floating rates, which is containing a repayment on demand clause and is repayable in one year. The bank borrowings are secured by, among other things, the investment properties and certain deposits of the Group.

Total liabilities

The consolidated total liabilities of the Group decreased from approximately HK$244.4 million as at 31 December 2021 to approximately HK$240.9 million as at 31 December 2022, which was mainly attributable to the prepayment for the loan provided by related companies during FY2022.

The consolidated total liabilities of the Group increased from approximately HK$240.9 million as at 31 December 2022 to approximately HK$246.0 million as at 30 June 2023, which was mainly due to an additional loan provided by the controlling shareholder of the Group of approximately HK$4.0 million during 6M2023.

Net current liabilities

The consolidated net current liabilities of the Group increased from approximately HK$215.0 million as at 31 December 2021 to approximately HK$216.1 million as at 31 December 2022, which was mainly attributable to the decrease in the balance of trade and other receivables the Group as at 31 December 2022.

The consolidated net current liabilities of the Group increased from approximately HK$216.1 million as at 31 December 2022 to approximately HK$218.5 million as at 30 June 2023, which was mainly due to an additional loan provided by the controlling shareholder of the Group of approximately HK$4.0 million during 6M2023.

2. PRC Subsidiary

As at the Latest Practicable Date, the PRC Subsidiary is a company established in the PRC and is indirect wholly-owned by the Company.

3. China Asia Electronic

As at the Latest Practicable Date, China Asia Electronic is principally engaged in property development and 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 Shenzhen Xinghuo Chuangke Technology Co., Ltd.*(深圳市星火創客科技有限公司).

China Asia Real Estate Group Co., Ltd. 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.

Shenzhen Xinghuo Chuangke Technology Co., Ltd. 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.

B. Principal terms of the Tenancy Agreement

1. Principal terms

The following summarises the principal terms of the Tenancy Agreement.

Date	:	6 June 2023
Parties	:	(1) PRC Subsidiary, as tenant; and (2) China Asia Electronic, as landlord
Premises	:	An industrial park with an aggregate area of 350,855 square-metres at 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）(the "**Premises**")
Term	:	Ten years, commencing from the date of Tenancy Completion
Total rent	:	RMB1,413.4 million (equivalent to approximately HK$1,526.5 million) (inclusive of VAT, but exclusive of government charges and utilities)
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$305.2 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 manner:

(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

(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.

2. Conditions precedent

The Tenancy Completion is conditional upon the fulfillment 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 SGM 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;

(d) there being no material adverse effect (or change) (whether actual or potential) up to the handover of the premises under the Tenancy Agreement; and

(e) China Asia Electronic having assigned all its existing tenancy agreements entered into with tenants to the PRC Subsidiary (as amended and supplemented by the Supplemental Tenancy Agreement entered into between PRC Subsidiary and China Asia Electronic on 12 October 2023).

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 conditions (d) and (e) 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 29 February 2024 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.

C. Assessment of the terms of the Tenancy Agreement

As disclosed in the Letter from the Board, the rental amount of RMB1,413.4 million in the Tenancy Agreement between China Asia Electronic and the PRC Subsidiary was determined after arm's length negotiation based on, among other things, (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 (the "**Expected Rental Income**"); (iii) an 18% discount applied to the rental payments to be made by the PRC Subsidiary with reference of the Expected Rental Income; and (iv) the appraised value of the right-of-use asset under the Tenancy Agreement at the amount of RMB1,058.2 million (equivalently to approximately HK$1,142.9 million) as of 31 August 2023.

1. Total rent and Performance Undertaking

As disclosed in the Letter from the Board, the total rent of RMB1,413.4 million payable under the Tenancy Agreement represented the expected rental income to be generated by the Silicon Valley Industrial Park from 2023-2033 (the "**Expected Rental Income**") with 18% discount (the "**Rent Discount**").

Set out below is the calculation of the total rent of RMB1,413.4 million payable under the Tenancy Agreement:

Year	**Actual rental income generated by the Silicon Valley Industrial Park in April 2023**	**Expected Rental Income to be generated by the Silicon Valley Industrial Park**	**Expected rental payments to be made by the PRC Subsidiary**	**Expected annual growth rate of the rental income**
	(RMB' million)	*(RMB' million)*	*(RMB' million)*	*%*
	a	***b = a * 12***	***c = b * (1-18%)***	
1st Year	11.4	137.0	112.4	
2nd Year		143.9	118.0	5%
3rd Year		151.1	123.9	5%
4th Year		158.6	130.1	5%
5th Year		166.6	136.6	5%
6th Year		174.9	143.4	5%
7th Year		183.6	150.6	5%
8th Year		192.8	158.1	5%
9th Year		202.5	166.0	5%
10th Year		212.6	174.3	5%
Total	**11.4**	**1,723.6**	**1,413.4**	

In assessing the fairness and reasonableness of the total rent of the Tenancy Agreement as illustrated above, we have considered the following factors:

(i) The Expected Rental Income and expected annual growth rate

The Expected Rental Income of approximately RMB1,723.6 million as illustrated above is determined based on (1) the actual rental income of China Asia Electronic totalling RMB11.4 million received from its existing tenants of the Silicon Valley Industrial Park in April 2023; and (2) the expected annual growth rate of 5% in rental income per year from 2024.

Assessment on the Expected Rental Income and expected annual growth rate

In order to assess the fairness and reasonableness of the Expected Rental Income and expected annual growth rate adopted by the Company, we have (1) obtained and reviewed the existing tenant lists; and (2) selected and reviewed all tenancy agreements of the Silicon Valley Industrial Park with a contract value of over RMB1 million (the "**Tenancy Agreements Samples**"). We consider that the Tenancy Agreements Samples are adequate, representative and reasonable to assess the fairness and reasonableness of the expected annual growth rate used by the Company due to the following reasons:

(1) the Tenancy Agreements Samples consist of 75 tenancy agreements, which collectively represented approximately 70% of the total number of existing tenancy agreements; and

(2) the aggregated contract value of the Tenancy Agreement Samples amounted to approximately 99.84% of the total contract value of all the tenancy contracts entered into between the Company and its existing tenants.

Upon conducting our review on the existing tenant lists and Tenancy Agreements Samples, we noted that (1) the rental income for the Silicon Valley Industrial Park was approximately RMB11.4 million in April 2023; (2) over 80% of the aggregate value of existing monthly rental receivables of the Silicon Valley Industrial Park represented existing tenancy with remaining lease terms of over 3 years as at the date of the Tenancy Agreement; and (3) the rental payable by 50 existing tenants shall increase every one or two years by a percentage ranging from 3% to 13% pursuant to the terms of the respective tenancy agreements, of which the aggregated contract value exceeds 80% of the total contract value of all tenancy contracts between the Company and its existing tenants.

Views on the Expected Rental Income and expected annual growth rate

Having considered that (1) the Silicon Valley Industrial Park is generating substantial rental income, with the recorded amount of approximately RMB11.4 million in April 2023; (2) the significant proportion (over 80%) of long-term tenancies at the Silicon Valley Industrial Park indicates a stable and established tenant base, contributing to the continuity and reliability of rental income; and (3) the contractual provisions for rent increases ranging from approximately 3% to 13% in the majority of the tenancy agreements, which collectively account for over 80% of the total contract value, demonstrates the potential for future growth in rental revenue, we consider the Expected Rental Income as determined by the actual rental income of the Silicon Valley Industrial Park in April 2024 and the expected annual growth rate of 5% to be fair and reasonable.

(ii) The Rent Discount

As disclosed in the Letter from the Board, the Rent Discount represented the 18% discount on the rental payable to China Asia Electronic based on the Expected Rental Income, which was determined after an arm's length negotiation between China Asia Electronic and the PRC Subsidiary. We understand the Management considered that the Rent Discount of 18% margin should be sufficient to cover the Group's rental business operations at the Silicon Valley Industrial Park.

In order to assess the fairness and reasonableness of the 18% discount, we have obtained and reviewed the expense budget for the rental business operation of the Silicon Valley Industrial Park of the Group, which is based on the expenses incurred in the preceding years. We noted that such incurred expense for the rental business operation of the Group mainly included staff salaries and other administrative expenses, which are expected to be ranging from approximately 12% to 14% of the rental income of the Group's rental business operations during the budget period. As such, the Rental Discount may allow the Group to operate the rental business at the Silicon Valley Industrial Park at an 18% margin, which shall be sufficient to cover the operating expenses of the PRC Subsidiary in the operation of the Silicon Valley Industrial Park.

(iii) The Performance Undertaking

In the event of any Shortfall in the actual rental income of the Silicon Valley Industrial Park as compared to the rental payable by the PRC Subsidiary, 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.

As such, the Performance Undertaking may safeguard the Company from suffering loss on the Silicon Valley Industrial Park in the event the Expected Rental Income decreases in the future.

*(iv) Assessment on the valuation of the right-of-use asset under the Tenancy Agreement (the "**Valuation**")*

As disclosed in the Letter from the Board, the rental amount in the Tenancy Agreement was determined based on the appraised value of the right-of-use asset under the Tenancy Agreement at the amount of RMB1,058.2 million (equivalently to approximately HK$1,142.9 million) as of 31 August 2023 (the "**ROU Appraised Value**").

In assessing the fairness and reasonableness of the total rent of the Tenancy Agreement, we have reviewed the valuation report prepared by LCH (Asia-Pacific) Surveyors Limited (the "**Valuer**"), an independent valuer to assess the ROU Appraised Value. We noted that the ROU Appraised Value represented the right-of-use assets under the Tenancy Agreement, which is determined based on the discounted value of the estimated net profit under the Expected Rental Income. As such, we consider the ROU Appraised Value may serve as a reference for the Company in the determination of the Consideration:

(1) The Valuer

The Company has engaged the Valuer to perform the valuation in relation to the right-of-use asset under the Tenancy Agreement and prepare the Valuation Report.

In respect of Valuer's experience, we have requested and obtained a list from Valuer demonstrating their track record of valuation in relation to the right-of-use asset under long-term tenancy agreement of industrial parks. Based on our review, we understand that the Valuer has accumulated sufficient experience in evaluating the right-of-use asset under the Tenancy Agreement.

We have reviewed the qualification on the valuation of assets of the Valuer and understand that the Valuer is certified with the professional qualification required to perform the valuation on the right-of-use asset under the Tenancy Agreement.

In respect of the independence of the Valuer, the Valuer confirms that it is independent from the Company.

We have also reviewed the scope of work of the Valuer and did not identify any limitations on the scope of work which might adversely impact on the degree of assurance in the Valuation.

Based on the above, we are of the view that the scope of work of the Valuer is appropriate and the Valuer is qualified and competent to perform the Valuation.

(2) Valuation methodology

We have reviewed the Valuation Report and discussed with the Valuer regarding the following assumption made and methodology adopted for the Valuation. We note that the ROU Appraised Value was determined based on the income approach and understand that:

(i) the ROU Appraised Value was not determined based on the asset-based approach since the Group, as the lessee, will not have ownership of the Silicon Valley Industrial Park under the Tenancy Agreement. As such, the asset-based approach is not appropriate for the valuation of the right-of-use asset under the Tenancy Agreement;

(ii) the ROU Appraised Value was not determined based on the market approach since there is very limited publicly available information in relation to the entering into of the long-term tenancy agreement of the industrial park whose nature is similar to the Silicon Valley Industrial Park; and

(iii) the ROU Appraised Value was determined based on the income approach since income approach can reflect the economic benefits to be generated from the rental business of the Silicon Valley Industrial Park during the ten year term under the Tenancy Agreement.

After considering the reasons above, we are of the view that the valuation methodology for the ROU Appraised Value adopted by the Valuer is reasonable and acceptable for the Valuation.

(3) Valuation assumptions

We noted that the Valuer has adopted the following major assumptions and parameters for the Valuation of the ROU Appraised Value:

(1) It is assumed that the market rent as at Valuation Date RMB38 per square metre per month;

(2) It is assumed that the normal vacancy rate of the Silicon Valley Industrial Park maintains around 5%;

(3) It is assumed that the growth per annum for rental income generated from the Silicon Valley Industrial Park is 5%; and

(4) It is assumed the discount rate adopted by the Valuer for the discounted cash flow method is 7%.

For our purpose of due diligence, we have assessed the above assumptions and parameters as follows:

(1) as further disclosed in the section headed "(v) The average rental price" below, we have performed a comprehensive analysis to compare the average rental price per square-metre provided by China Asia Electronic under the Tenancy Agreement with the market average rental prices of industrial parks located in proximity to the Silicon Valley Industrial Park. We noted that the assumption of the monthly rental price of RMB38 per square meter as adopted by the Valuer is within the range of the monthly market average rental prices in the Tenancy Comparables from approximately RMB35 to RMB65 per square-metre. As such, we are of the view that the assumption of the monthly rental price of RMB38 per square meter is fair and reasonable;

(2) the normal vacancy rate of the Silicon Valley Industrial Park is determined with reference to (i) the current vacancy rate of the Silicon Valley Industrial Park as at the Valuation Date of approximately 5%; and (ii) the fact that over 80% of the aggregate value of existing monthly rental receivables of the Silicon Valley Industrial Park represented existing tenancy with remaining lease terms of over 3 years as at the date of the Tenancy Agreement. As such, we are of the view that it is reasonable to assume the future vacancy rate of the Silicon Valley Industrial Park to remain stable at around 5% due to the current high occupancy rate (over 80%) of long-term tenancies at the Silicon Valley Industrial Park, which indicates a stable and established tenant base. Therefore, we concur with the Valuer on the assumption of the normal vacancy rate of the Silicon Valley Industrial Park of 5%;

(3) as analysed in the above section headed "(i) The Expected Rental Income and expected annual growth rate", we are of the view that the expected annual growth rate of 5% adopted by the Valuer is fair and reasonable; and

(4) we have assessed the fairness and reasonableness of the discount rate of 7% as disclosed in the below section headed "(4) Application of the income approach – Discount rate" and consider that the discount rate adopted by the Valuer is fair and reasonable.

In light of the above, we are of the view that the assumptions and parameters adopted by the Valuer for the Valuation of the ROU Appraised Value are fair and reasonable.

(4) Application of the income approach

In our assessment of the appraised value of the net operating assets, we noted that the Valuer has applied the discounted cash flow method to estimate the net present value of the projected free cash flow of the business operation at a discount rate of 7% to calculate the ROU Appraised Value.

The ROU Appraised Value is based on the net present value of the projected free cash flow, which is further determined with reference to: (i) the estimated net profit; and (ii) the estimated net profit generated from the rental business operations of the Silicon Valley Industrial Park.

Discount rate

In estimating the discount rate for the income approach, we noted that the Valuer has adopted the discount rate of approximately 7% for the discounted free cash flow method, which is determined with reference to (i) the best lending rate of approximately 5.75% on the bank loans for one year immediately preceding the Valuation Date as announced by the Census and Statistics Department of the Government of the Hong Kong (the "**HK Census and Statistics Department**"); and (ii) the inflation rate around 1% to 2% determined based on the Consumer Price Indices as at the Valuation Date as announced by the HK Census and Statistics Department.

For our purpose of due diligence, we have assessed the basis and the calculation of the discount rate as follows:

(i) we have reviewed the best lending rate on the bank loans for one year in the website of the HK Census and Statistics Department and noted that the best lending rate used in the Valuation is the same as the best lending rate on the bank loans for one year immediately preceding the as at Valuation Date as announced by the HK Census and Statistics Department; and

(ii) we have reviewed the Consumer Price Indices on the website of the HK Census and Statistics Department and noted that the inflation rate used in the Valuation is the same as the Consumer Price Indices as at the Valuation Date as announced by the HK Census and Statistics Department.

Based on the above, we are of the view that the discount rate used in the Valuation is fair and reasonable.

Estimated net profit

In estimating the net profit generated from the rental business of the Silicon Valley Industrial Park, we noted that the net gross profit was determined based on:

(i) the Expected Rental Income, which is estimated based on (a) the ongoing rental agreements on hand between China Asia Electronic and all existing tenants as at the Valuation Date; and (b) the estimated growth rate of the business of approximately 5%. Regarding the assessment of the reasonableness and fairness of the expected rental incomes and the estimated growth rate, please refer to the above section headed "(i) The Expected Rental Income and expected annual growth rate";

(ii) the rent discount, which is determined based on the estimated staff salaries and other administrative expenses for the rental business operation of the Silicon Valley Industrial Park, is estimated based on the above-estimated revenue and the historical proportion of the expenses to the revenue of from the rental business of China Asia Electronic at the Silicon Valley Industrial Park for the two years ended 31 December 2022 and six months ended 30 June 2023. Regarding the assessment of the reasonableness and fairness of the rent discount, please refer to the above section headed "(ii) The Rent Discount"; and

(iii) the value-added tax (the "**VAT**"), which is forecast based on (a) the estimated revenue; and (b) the tax rate of the VAT of 9% on the income generated from the rental business in the PRC.

Based on the above, we consider that the estimated net profit is fair and reasonable.

Views on Valuation for the ROU Appraised Value

Having considered (i) the independence, qualification and experience of the Valuer; and (ii) the selection and application of the valuation methodology on the right-of-use assets under the Tenancy Agreement is reasonably prepared, we are of the view that (i) the methodology and assumptions which had been adopted in the valuation of the right-of-use assets under the Tenancy Agreement in the Valuation Report were arrived at after due and careful consideration; and (ii) the valuation the right-of-use assets under the Tenancy Agreement was carried out on a fair and reasonable basis by the Valuer.

(v) The average rental price

Assessment on the average rental price

In addition, in order to further assess the fairness and reasonableness of the total rent under the Tenancy Agreement, we have also performed a comprehensive analysis to compare the average rental price per square-metre provided by China Asia Electronic under the Tenancy Agreement with the market average rental prices of industrial parks located in proximity to the Silicon Valley Industrial Park. As such, we have selected six industrial parks as comparative samples (the "**Tenancy Comparables**"), based on the following criteria:

(1) the Tenancy Comparables were situated within a maximum distance of 6 kilometres from the Silicon Valley Industrial Park;

(2) the rental period of the Tenancy Comparables considered encompassed a duration of six months from the date of the Tenancy Agreement; and

(3) the Tenancy Comparables are of similar nature to the Silicon Valley Industrial Park, which encompassed diverse themes including cultural, hi-technologies, educational, and biomedical parks, catering to a range of usages such as conference halls, offices, workshops, and research and development centres.

In light of the above selection criteria, we are of the view that the Tenancy Comparables are representative and capable of providing information on the prevailing market conditions and current average rental prices in the open market.

Views on the average rental price

Upon performing the above analysis, we noted that (1) the monthly market average rental prices in the Tenancy Comparables ranged from approximately RMB35 to RMB65 per square-meter; and (2) the monthly average rental price offered by China Asia Electronic in the Tenancy Agreement amounted to approximately RMB33 per square-meter (i.e., RMB11.4 million actual rental income in April 2023 divided by the aggregate area of 350,855 square-metres at the Silicon Valley Industrial Park under the Tenancy Agreement), which is close to the minimum average market price per square-metre of the Tenancy Comparables. As such, we consider that the average rental price under the Tenancy Agreement offered by China Asia Electronic is fair and reasonable.

(vi) Our views on the total rental amount of the Tenancy Agreement

Having considered that (1) the Expected Rental Income as determined by the actual rental income of the Silicon Valley Industrial Park in April 2024 and the expected annual growth rate of 5% is fair and reasonable; (2) the 18% Rent Discount is sufficient to cover the operating expenses of the Group in the operation of the Silicon Valley Industrial Park; (3) the Performance Undertaking may safeguard the Company from suffering loss on the Silicon Valley Industrial Park in the event the Expected Rental Income decreases in the future; and (4) the average rental price of the total rental amount offered by China Asia Electronic in the Tenancy Agreement is fair, reasonable and justifiable, we are of the view that the total rental amount stipulated in the Tenancy Agreement is fair and reasonable and in the interest of the Company and Shareholders as a whole.

2. Payment terms of the rent

Pursuant to the Tenancy Agreement, rental payments shall be made by the PRC Subsidiary to China Asia Electronic at the end of each quarter during the term of the Tenancy Agreement. As the PRC Subsidiary will receive rental payments from the existing tenants of the Silicon Valley Industrial Park on a monthly basis before the settlement of the rent payable to China Asia Electronic on a quarterly basis, the PRC Subsidiary shall be able to maintain and/or generate positive cashflow under the Tenancy Agreement. As such, we consider the payment term of the rent under the Tenancy Agreement to be fair and reasonable.

3. The Deposit

Pursuant to the Tenancy Agreement, the Deposit, being 20% of the total rent payable under the Tenancy Agreement, shall be payable by the PRC Subsidiary to China Asia Electronic upon the signing of the Tenancy Agreement, which may be applied to offset the rent payable by the PRC Subsidiary for the last two years of the term of the Tenancy Agreement.

Assessment of the terms of Deposit

In order to assess the fairness and reasonableness of the terms of the Deposit under the Tenancy Agreement, we have performed a comprehensive review on all the offers received by China Asia Electronic from independent third parties for leasing the Silicon Valley Industrial Park within a one-year period preceding the date of the Tenancy Agreement. We consider that the sampling period of one year is adequate and exhaustive based on the recent market sentiment in the PRC. We have enquired with the Management and are advised by the Management that, to the best of their understanding, China Asia Electronic only received one offer from an independent third party for leasing the Silicon Valley Industrial Park during the aforementioned sampling period. Accordingly, we have reviewed the terms offered to China Asia Electronic by such independent third party for leasing the Silicon Valley Industrial Park for a lease term of 10 years.

During our review on the above sample, we noted that China Asia Electronic was offered the same terms by the independent third party for the ten-year lease of the Silicon Valley Industrial Park in March 2023. We have reviewed the terms offered by such independent third party and noted that the terms in relation to the rental deposit were the same as the terms in the Tenancy Agreement, including:

(i) the rental deposit is 20% of the total rental payable for such ten-year lease term; and

(ii) the rental deposit shall be applied to offset the rent payable for the last two years of the term of such ten-year lease.

Views on the terms of Deposit

Based on the above analysis, we note that the terms in relation to the rental deposits offered by the independent third party is comparable to the terms stipulated in the Tenancy Agreement in relation to the rental deposit. As such, we consider the terms of the Deposit under the Tenancy Agreement are justifiable and in line with industry practices. Accordingly, the terms in relation to the Deposit under the Tenancy Agreement are no less favourable than those offered to independent third parties, and thus are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Taking into account the above factors, we consider the total rent and the relevant payment terms under the Tenancy Agreement to be fair and reasonable.

D. Reasons for and benefits of the entering into of the Tenancy Agreement

In assessing the fairness and reasonableness of the reasons for and benefits of entering into of the Tenancy Agreement, we have considered the following factors.

(i) Prime location of the Silicon Valley Industrial Park

The Silicon Valley Industrial Park is situated in the Bao'an district in Shenzhen, one of the fastest-growing regions in the Greater Bay Area.

With reference to the Shenzhen Statistical Yearbook 2022 dated 19 January 2023 published by Shenzhen Statistics Bureau and Survey Office of the National Bureau of Statistics in Shenzhen of the PRC, in 2022 Bao'an was the largest region in Shenzhen, with a total area of 396.61 square kilometres. The population of Bao'an increased from approximately 3.34 million in 2019 to approximately 4.48 million in 2021, by approximately 34.1% as compared to 2019. Meanwhile, in 2021, the annual gross domestic product ("**GDP**") of Bao'an was approximately RMB442 billion, increasing by 14.8% compared to 2020.

After more than 40 years of development, Bao'an accumulated a strong industrial foundation and has emerged as a prominent industrial zone in Shenzhen. According to data published by the Bureau of Science, Technology and Innovation of Bao'an District of Shenzhen, in 2022, Bao'an has nearly 500,000 enterprises, representing one-fifth of the total enterprises in Shenzhen. Among these enterprises, over 50,000 are industrial firms, with nearly 5,000 being large-scale industrial enterprises, accounting for two-fifths of the total in Shenzhen. Bao'an owns 7,061 national high-tech enterprises, which account for approximately one-third of the total high-tech enterprises in Shenzhen and have ranked first among county-level areas in China for six consecutive years.

On 6 June 2022, the government of Shenzhen issued an important policy document titled "Opinions on Developing and Strengthening Strategic Emerging Industry Clusters and Cultivating Future Industries" (《關於發展壯大戰略性新興產業集群和培育發展未來產業的意見》). The policy aims to cultivate and strengthen the "20+8" industrial clusters, which include 28 strategic emerging industry clusters focused on advanced manufacturing. The policy seeks to stabilise the foundation of the manufacturing industry, enhance the development momentum of the real economy and to accelerate the construction of a global technology and industrial innovation hub in Shenzhen. By 2025, the added value of strategic emerging industries in Shenzhen is expected to exceed RMB1.5 trillion, becoming the main driving force for the promotion of high-quality economic and further development of society.

In addition, Bao'an is the key area for 15 strategic emerging industry clusters, ranking first among all districts in Shenzhen in terms of the number of industrial clusters. Currently, there are four industrial clusters with an output value or revenue of around RMB100 billion per annum.

As such, the Silicon Valley Industrial Park, situated in the centre of the Bao'an district, represents a prime location for the development of property investment and property management service business for the Group.

(ii) Securing a stable revenue and cashflow stream of the property investment business

As (1) the current occupancy rate of the Silicon Valley Industrial Park is over 95%; (2) the existing tenants of the Silicon Valley Industrial Park include a number of reputable private and listed companies; and (3) the majority of the existing tenancy agreements have a remaining term of over 3 years, the entering into of the Tenancy Agreement may instantly provide a stable revenue and cashflow stream for the Group without the need of soliciting many new sub-tenants in the near future.

(iii) Synergy for the property management business

The Group has been focusing on the development of the property management business which recorded satisfactory results in FY2022. Despite the Group has been providing property management services to the tenants at the Silicon Valley Industrial Park since 2020, with the entering of the Tenancy Agreement, the Group may leverage its existing resources to enhance its service offerings and provide a more comprehensive range of property management solutions to its tenants. The Group may further streamline the process of soliciting new tenants in the future, which will increase the attractiveness of the Group's services and the Silicon Valley Industrial Park. As such, being the lessor and the property management service provider, the Group may have higher bargaining power over the tenants of the Silver Valley Industrial Park in the future.

Having taken into account of the above factors, we concur with the Directors that the entering of the Tenancy Agreement is in the interests of the Company and the Shareholders as a whole.

E. Our views on the entering of the Tenancy Agreement

Having considered all the factors as mentioned above, we are of the view that the Tenancy Agreement is in the ordinary and usual course of business, on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

II. THE SUBSCRIPTION

A. The Subscription Agreement

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

Date : 6 June 2023

Issuer : the Company

Subscribers : (1) China Asia Group Inc.;

(2) Zhongjun Holding Group Company Limited ("**Subscriber 1**");

(3) Mr. Xiong Guoqiang* (熊國強) ("**Subscriber 2**"), the beneficial owner and sole owner of Xuhong

Subscription Price : HK$353,360,000

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
China Asia Group Inc.	233,450,000
Total	**353,360,000**

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

(i) the passing of resolutions by the Independent Shareholders at the SGM convened in accordance with the Listing Rules approving the issue of the Convertible Bond and all transactions contemplated under the Subscription Agreement;

(ii) 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 fulfillment 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;

(iii) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares;

(iv) 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;

(v) 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 19 cancelled before the Subscription Completion;

(vi) there having been no government actions, court orders or legal proceedings that would render the Subscription illegal, restricted or prohibited before the Subscription Completion;

(vii) 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

(viii) there being no (actual or potential) material adverse effect (or changes) before the Subscription Completion Date.

Except that conditions (iv), (vii) and (viii) 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 (v) 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 (v)), and the Subscribers shall use reasonable effort to procure the satisfaction of conditions (ii), (v), (vi) and (viii).

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.

B. The Convertible Bond

Set forth below are the principal terms of the Convertible Bond:

Issuer	:	The Company
Principal amount	:	HK$353,360,000
Conversion Price	:	The initial Conversion Price of HK$0.1 per Conversion Share represents:

(i) a discount of approximately 10.7% to the closing price of HK$0.112 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 33.3% to the closing price of HK$0.150 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) 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 Last Trading Day;

(iv) 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 Last Trading Day;

(v) 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 Last Trading Day;

(vi) 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 Last Trading Day;

(vii) 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 Last Trading Day;

(viii) 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 Last Trading Day; and

(ix) 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 Latest Practicable Date.

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).

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 SGM 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 Latest Practicable Date; 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 Latest Practicable Date 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 HK$176,680,000 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 SGM.

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.

C. Reasons for and benefits of the Subscription and the use of proceeds

As stated in the Letter from the Board, the net proceeds from the Subscription, after deducting the estimated expenses, are estimated to be approximately HK$352.4 million. The Company intends to utilise the proceeds from the Subscription as follows:

(i) approximately HK$306.5 million (or approximately 87% of the net proceeds) for the payment of the Deposit of the Tenancy Agreement, which can provide an opportunity for the Company to create substantial cash flow from the business of rental services of Premises; and

(ii) approximately HK$45.8 million (or approximately 13% of the net proceeds) for general corporate and working capital purposes, including but not limited to settling trade and other payables, staff salaries, wages and other benefits, other property management related expenses and interests on bank loans.

1. Development and expansion of the business of the Company to improve its financial performance

As discussed in the section headed "B. Reasons for and benefits of the entering into of the Tenancy Agreement" above, the proposed entering into of the Tenancy Agreement may (i) provide a stable source of revenue and cashflow stream for the Group; and (ii) provide synergy effect for the development of the Group's property investment and management service business.

As such, we are of the view that the proceeds from the Subscription, which will mainly be utilised for the payment of the Deposit, will enable the Group to implement its business strategies with respect to the existing property management and rental businesses, which can help the Group to expand its scale of operations and improve its profitability by exploring new markets, diversifying its service offerings, and enhancing its overall competitiveness within the property management sector.

2. Liquidity pressure of the Group

With reference to the independent auditor's report in the annual report for FY2022, as at 31 December 2022, the net current liabilities of approximately HK$216.1 million of the Group as at 31 December 2022 is one of the conditions that indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. In view of such circumstances, the Directors have given careful consideration to the future liquidity, performance of the Group and its available sources of financing in assessing whether the Group will be able to finance its future working capital and financial requirements.

We further noted that the Group had a gearing ratio of approximately 1.36 as at 31 December 2021, which further increased to approximately 1.84 as at 31 December 2022. In this context, replenishing the working capital of the Group may (i) alleviate the liquidity pressure of the Group; and (ii) allow the Group to cater for the repayment of any debts as and when they fall due, which shall reduce the overall gearing ratio of the Group to improve the financial position of the Group.

Conclusion

Taking into account the factors above, we concur with the management of the Company that the Subscription may provide the Company with additional working capital to (i) implement its business strategies on the Group's existing property management and other related services business and the expansion to the development of the rental business with a view to improving its profitability; and (ii) alleviate the liquidity pressure to allow the Group to meet its funding needs and repay any debts as and when they fall due while reducing gearing ratio to improve the financial position of the Group. As such, we consider that the Subscription is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

D. Other fundraising alternatives

As stated in the Letter from the Board, the Directors have considered other financing alternatives apart from Subscription, such as debt financing, a placing of new shares, rights issue and open offer to meet the financial needs of the Group, if appropriate, taking into consideration the financial position, capital structure and cost of funding of the Group as well as the prevailing market condition.

Debt financing

The Directors have considered financing alternatives such as debt financing. As advised by the management of the Company, debt financing may not be feasible for the Group for the following reasons:

(i) the Group may have difficulties in obtaining further loans from a bank due to the high gearing ratio of the Group. Even if banks are willing to grant the Group further loans, the interest rate offered to the Group may be relatively higher, which is unacceptable for the Group to bear any potential surging interest burden;

(ii) debt financing may further incur financial costs and increase the interest burden for the Group, particularly in view of the relatively high-interest rate recently, which may further affect the financial performance of the Group; and

(iii) the Group's financial risk would increase due to the increase in the leverage of the Group and the consistent loss-making performance.

In light of the above, we are of the view that debt financing is not a favourable fundraising method for the Group.

Rights issue or open offer

With regard to the viability of a rights issue or an open offer, the Directors have considered that given the Group's net current liabilities position, the result of fund-raising from a rights issue or an open offer may not be desirable. Furthermore, in the view of (i) more documentation is typically required for the rights issue or an open offer; (ii) it generally takes longer time to arrange a rights issue or open offer than the Subscription; and (iii) it is more costly to arrange a rights issue or open offer than a subscription as it is expected that the Company would incur a higher cost to arrange a rights issue or an open offer as more professional parties would need to be engaged in an open offer or a rights issue, we consider that the Subscription would be more favourable and attractive to the Shareholders.

Placing of new shares

Having considered that

(i) due to the Group's net current liabilities position, the thin trading volume and the low liquidity of the Shares, the placing agent may face difficulties and take time to seek potential investor(s);

(ii) a substantial number of Shares are required to be allotted and issued for substantial funding needs, the potential investor(s) may require a substantial placing discount to the trading price of the Shares;

(iii) higher cost to arrange a placing of new Shares, as the placing agent would charge commission with reference to certain percentages of the amount of the fund-raising; and

(iv) a placing of new Shares will cause immediate dilution to the shareholding of existing Shareholders,

rather than conducting a placing of new shares, the Directors are of the view that the entering into of the Subscription Agreement represents an opportunity for the Company to improve a net current liabilities position at a reasonable cost.

The following table sets out the total trading volume per month and the average daily trading volume per month of the Shares from 1 January 2022 to the Last Trading Date as provided by the website of the Stock Exchange:

Month	**Number of trading days** *a*	**Total trading volume** *b*	**Average daily trading volume** *c = b/a*	**% of average daily trading volume to total number of Share in issue** *(Note)*
2022				
January	21	1,628,000	77,524	0.0577%
February	17	8,059,000	474,059	0.2859%
March	23	5,417,500	235,543	0.1922%
April	18	9,837,800	546,544	0.3490%
May	20	2,642,000	132,100	0.0937%
June	21	1,714,500	81,643	0.0608%
July	20	825,382	41,269	0.0293%
August	23	2,289,900	99,561	0.0812%
September	21	761,000	36,238	0.0270%
October	20	2,754,827	137,741	0.0977%
November	22	2,395,119	108,869	0.0850%
December	20	1,803,000	90,150	0.0640%
2023				
January	18	4,843,000	269,056	0.1718%
February	20	4,615,100	230,755	0.1637%
March	23	2,764,000	120,174	0.0980%
April	17	10,783,000	634,294	0.3825%
May	21	21,923,000	1,043,952	0.7777%
June (up to the Last Trading Date)	4	2,314,000	578,500	0.0205%

Month	Number of trading days *a*	Total trading volume *b*	Average daily trading volume *c = b/a*	% of average daily trading volume to total number of Share in issue *(Note)*
			Maximum	0.7777%
			Minimum	0.0205%
			Average	0.1688%

Source: Stock Exchange website

Note: The percentage of average daily trading volume to the total number of Shares in issue is calculated by average daily trading volume divided by the total number of issued Shares of 2,819,102,084 Shares.

As shown in the above table, the percentage of average daily trading volume to the total number of Shares in issue ranged from 0.0205% to 0.7777%, with an average of 0.1688%. Therefore, the above analysis of the trading activities of the Shares aligns with the Director's view of thin trading volume and the low liquidity of the Shares, as mentioned above.

Conclusion

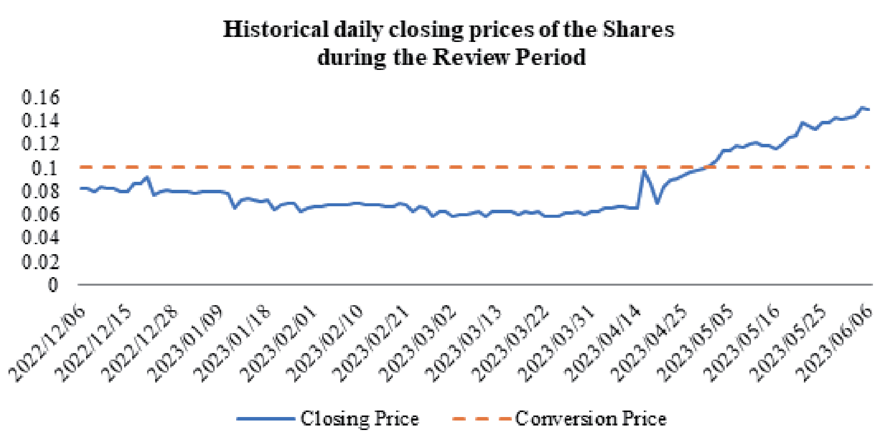
We concur with the Directors' view that the Subscription is a more feasible and realistic method than the above financing alternatives. In addition, given the net current liabilities position of the Company, we consider that it is difficult for the Company to obtain external financing. Moreover, the Subscription reflects the confidence and commitment of Mr. Huang, the controlling shareholder of the Company, towards the long-term and sustainable development of the Company, and that the continuing support of the controlling shareholder for the Company is crucial to ensure the business stability and long-term development of the Group.

E. Analysis of the principal terms of the Convertible Bond

In order to assess the fairness and reasonableness of the principal terms of the Convertible Bond, as part of our due diligence work, we have primarily taken into account (i) the historical Share price performance; and (ii) the market comparables in respect of recent issuance of convertible bonds/notes as discussed below.

1. Historical price performance of the Shares

Set out below is a chart showing the movement of the daily closing prices of the Shares for the period commencing from 6 December 2022 (being six months prior to the date of the Subscription Agreement) up to and including the Last Trading Day (the "**Review Period**"), as this period is reasonably long enough to provide sufficient market data to evaluate the recent trend in closing price movement of the Shares. We consider the Review Period adequate to reflect the general market sentiment and illustrate the general trend and level of movement of the daily closing price of the Shares before the Conversion Price was determined.



Source: Stock Exchange website

During the Review Period, the average closing price was approximately HK$0.0833 per Share. The daily closing price of the Shares ranged from HK$0.0580 per Share (the "**Lowest Closing Price**"), as recorded on 22 March 2023, to HK$0.1510 per Share (the "**Highest Closing Price**"), as recorded on 5 June 2023 during the Review Period. The Conversion Price of HK$0.1000 per Conversion Share lies within the range of the Lowest Closing Price and Highest Closing Price of the Shares and represents a discount of approximately 20.10% to the average closing price of the Shares during the Review Period.

We note that during the period commencing from 6 December 2022 to 14 April 2023, the closing price of the Shares exhibited a downward trend from HK$0.0800 per Share to HK$0.0660 per Share. Subsequently, after the publication of the annual report of the Company for the year ended 31 December 2022, the closing price of the Shares fluctuated within the range from HK$0.0660 per Share to HK$0.0980 per Share. Thereafter, the closing price surged upwards and reached its peak at the closing price of HK$0.1510 per Share on 5 June 2023. As at the Latest Practicable Date, the Conversion Price represents a discount of approximately 10.7% to the closing price of HK$0.112 per Share. Save as and except for the possible market reaction on the announcements made by the Company during the Review Period, the Directors are not aware of any specific reason which caused the aforesaid fluctuation of the closing prices of the Shares.

Taking into account the fluctuations in the closing price per Share during the period from 21 April 2023 to 5 June 2023, we have also reviewed the average closing price of the Shares of the last sixty (60) trading days, the last 180 trading days and the last 365 trading days prior to/on the Last Trading Day, to mitigate the influence of short-term volatility and arrive at a more representative market price for the assessment of the Subscription Price's fairness and reasonableness. We consider that using the above three durations would be appropriate, as they cover a relative longer observation period and provides a better indication of the market price of the Shares. We noted that the Subscription Price represented premiums over the average closing price of the Shares during the sixty-day duration (i.e., HK$0.0943 per Share), the 180-day duration (i.e., HK$0.0869 per Share) and the 365-day duration (i.e., HK$0.0807 per Share).

Based on the above analysis, we note that the Conversion Price of HK$0.1000 per Conversion Share is within the range of the Lowest Closing Price and Highest Closing Price of the Shares during the Review Period and represented premiums over the average closing price of the Shares of the last sixty (60) trading days (i.e., HK$0.0943 per Share), the last 180 trading days (i.e., HK$0.0869 per Share) and the last 365 trading days (i.e., HK$0.0807 per Share) prior to/on the Last Trading Day.

2. Comparable Issues analysis

To assess the fairness and reasonableness of the key terms of the Convertible Bond, including the interest rate, conversion price and term to maturity, we have conducted independent research on the recent proposed issue of convertible bonds/notes to both connected persons and independent third parties initially announced by companies listed on the Main Board of the Stock Exchange. We have considered the issuance of convertible bonds/notes to both connected persons and independent third parties in our research since the terms of such issuance are arrived at based on prevailing market conditions regardless of whether the subscribers are connected persons or not and represent an unbiased reference on market terms, therefore providing a decent reference in our evaluation of the terms of the Convertible Bond.

Based on the above selection criteria, we have identified a total of 22 comparable issues of convertible bonds/notes (the "**Comparable Issues**"), which was announced during the Review Period, to provide a general reference for the recent market practice in relation to the key terms of the convertible bonds/notes under similar market condition. We consider that the Review Period is appropriate since it provided, in our opinion, a reasonable and meaningful number of samples for our analysis purpose and the Comparable Issues as a whole provides a fair and representative sample.

While the subject companies among the Comparable Issues may have different principal business activities, market capitalisations, profitability and financial positions as compared to those of the Company, we are of the view that the Comparable Issues can provide a reasonable reference as to how the market generally perceived the subscription of convertible bonds. As such, we consider, to the best of our knowledge, the list of Comparable Issues is exhaustive, fair and indicative during the Review Period in assessing the fairness and reasonableness of the key terms of the Convertible Bond.

Set out below is a summary of the Comparable Issues:

							Premium/(discount) of conversion price over/(to)						
Date of announcement	Name of company	Stock Code	Issue to connected person	Principal amount	Term to maturity	Interest rate per annum	the closing price on the respective date of the relevant agreement	the average closing price for the last five consecutive trading days on the date of the relevant agreement	the average closing price for the last 30 consecutive trading days on the date of the relevant agreement	the average closing price for the last 60 consecutive trading days on the date of the relevant agreement	the average closing price for the last 180 consecutive trading days on the date of the relevant agreement	the average closing price for the last 365 consecutive trading days on the date of the relevant agreement	Theoretical dilution effect *(Note 1)*
					Year(s)	%	%	%	%	%	%	%	%
22-May-23	China Anchu Energy Storage Group Limited	2399	No	HK$26,205,300	2	8	26.92%	27.41%	26.92%	27.73%	24.34%	20.15%	0.47%
16-May-23	Arta TechFin Corporation Limited	279	No	HK$40,000,000	2	8	24.80%	25.00%	21.62%	24.08%	19.14%	−11.47%	0.38%
11-May-23	LVGEM (China) Real Estate Investment Company Limited	95	No	US$20,000,000	2	6	23.46%	21.21%	23.15%	26.77%	54.24%	64.11%	0.32%
28-Apr-23	Hua Yin International Holdings Limited	989	No	HK$150,000,000	3	6	Nil	1.14%	0.34%	3.32%	−3.68%	−5.16%	2.42%
10-Apr-23	Global Sweeteners Holdings Limited	3889	Yes	RMB120,000,000	3	5	16.30%	20.20%	16.41%	23.30%	26.42%	18.91%	15.23%
3-Apr-23	Ta Yang Group Holdings Ltd	1991	No	HK$39,200,000	3	10	−18.92%	−13.79%	−10.50%	−16.85%	−32.19%	−32.89%	6.49%
3-Apr-23	China Zenith Chemical Group Limited	362	No	HK$44,100,000	2	3	−10.30%	−8.30%	−11.54%	−10.14%	−10.64%	−75.78%	18.71%
30-Mar-23	China Baoli Technologies Holdings Limited	164	No	HK$20,000,000	3	2%	181.25%	186.26%	163.77%	150.00%	−74.31%	−87.59%	12.04%
29-Mar-23	Kerry Logistics Network Limited *(Note 2)*	636	Yes	HK$780,000,000	Perpetual	3.3%	44.17%	46.55%	42.12%	34.77%	43.95%	21.34%	0.36%
29-Mar-23	IBO Technology Company Ltd	2708	No	HK$92,400,000	2	8%	Nil	7.39%	2.41%	2.41%	−1.57%	−27.53%	11.43%
10-Mar-23	Kiu Hung International Holdings Limited *(Note 3)*	381	No	HK$30,500,000	3	Nil	17.31%	14.66%	10.11%	1.40%	−52.48%	−67.55%	44.82%
9-Mar-23	Wisdom Wealth Resources Investment Holding Group Limited	7	Yes	HK$100,000,000	1	5.62%	160.40%	166.50%	33.48%	34.48%	45.81%	63.83%	2.18%
3-Mar-23	Da Sen Holdings Group Limited	1580	Yes	HK$9,000,000	2	10%	56.25%	89.39%	103.53%	113.37%	−19.72%	−38.61%	1.40%
3-Mar-23	Wynn Macau, Limited	1128	No	US$600,000,000	6	4.5%	26.80%	24.00%	17.85%	16.29%	27.90%	16.09%	1.80%
15-Feb-23	China Silver Technology Holdings Limited	515	No	HK$15,262,320	3	8%	3.64%	0.35%	−17.63%	−23.64%	78.53%	62.51%	15.18%
10-Jan-23	Welife Technology Limited	1703	No	HK$44,000,000	3	3%	6.67%	4.99%	15.82%	17.44%	−52.48%	−67.55%	2.20%
28-Dec-22	Global New Material International Holdings Limited	6616	No	CNH500,000,000	4	3.5%	90.00%	92.89%	100.54%	100.17%	21.60%	14.78%	2.71%
23-Dec-22	Leoch International Technology Limited	842	No	HK$91,800,000	3	5.5%	30.80%	23.00%	61.10%	104.87%	15.32%	48.93%	1.07%
22-Dec-22	Wai Chun Bio-Technology Limited *(Note 3)*	660	Yes	HK$14,000,000	3	Nil	25.00%	32.00%	−11.44%	−27.68%	−88.76%	−92.28%	35.45%

Date of announcement	Name of company	Stock Code	Issue to connected person	Principal amount	Term to maturity	Interest rate per annum	Premium/(discount) of conversion price over/(to) the closing price on the respective date of the relevant agreement	the average closing price for the last five consecutive trading days on the date of the relevant agreement	the average closing price for the last 30 consecutive trading days on the date of the relevant agreement	the average closing price for the last 60 consecutive trading days on the date of the relevant agreement	the average closing price for the last 180 consecutive trading days on the date of the relevant agreement	the average closing price for the last 365 consecutive trading days on the date of the relevant agreement	Theoretical dilution effect *(Note 1)*
					Year(s)	%	%	%	%	%	%	%	%
20-Dec-22	China Ruifeng Renewable Energy Holdings Limited *(Note 3)*	527	No	HK$19,540,000	3	7%	17.65%	15.38%	−2.76%	−41.75%	−74.03%	−84.37%	42.83%
16-Dec-22	Winshine Science Company Limited	209	No	HK$14,000,000	1	16%	2.81%	2.81%	6.08%	2.71%	19.24%	−14.46%	8.54%
14-Dec-22	Eminence Enterprise Limited	616	Yes	HK$209,000,000	5	5%	43.24%	45.21%	46.41%	39.47%	−95.51%	−97.03%	22.22%
				Average	2.8	6.5%	41.51%	39.76%	33.32%	35.32%	10.93%	−0.11%	6.93%
				Median	3.0	5.8%	25.80%	22.11%	19.73%	23.69%	19.19%	4.81%	2.57%
				Minimum	1.0	2.0%	−18.92%	−13.79%	−17.63%	−23.64%	−95.51%	−97.03%	0.32%
				Maximum	6.0	16.0%	181.25%	186.26%	163.77%	150.00%	101.88%	79.21%	22.22%
				The Company	**5**	**3.6%**	**−33.30%**	**−31.50%**	**−18.00%**	**6.40%**	**14.90%**	**23.50%**	**18.54%**

Source: Stock Exchange website.

Notes:

1. The theoretical dilution effect is calculated in according to Rule 7.27B of the Listing Rules.

2. As the convertible bonds issued by Kerry Logistics Network Limited are perpetual securities, we consider such convertible bonds as an outliner and should be excluded from the comparison between the Comparable Issues and the Convertible Bond.

3. As the theoretical dilution effect of the convertible bonds issued by these companies are more than 25%, we consider such convertible bonds as outliners and should be excluded from the comparison between the Comparable Issues and the Convertible Bond.

Conversion Price

We are of the view that the above ranges are meaningful for the assessment of the Conversion Price for the following reasons:

(i) the Comparable Issues meet the selection criteria as indicated above; and

(ii) the Comparable Issues from the Review Period may provide us with recent and relevant information to demonstrate the prevailing market practice under the prevailing market conditions.

As set out in the table above, we note that:

(i) the conversion price as compared to the closing price on the last trading day prior to/on the announcements in relation to the respective Comparable Issues ranged from a premium of approximately 181.25% to a discount of approximately 18.92%, with an average and median premiums of approximately 41.51% and 25.80% respectively;

(ii) the conversion price as compared to the average closing price of the last five (5) trading days prior to/on the announcements in relation to the respective Comparable Issues ranged from a premium of approximately 186.26% to a discount of approximately 13.79%, with an average and median premiums of approximately 39.76% and 22.11% respectively;

(iii) the conversion price as compared to the average closing price of the last thirty (30) trading days prior to/on the announcements in relation to the respective Comparable Issues ranged from a premium of approximately 163.77% to a discount of approximately 17.63%, with an average and median premiums of approximately 33.32% and 19.73% respectively;

(iv) the conversion price as compared to the average closing price of the last sixty (60) trading days prior to/on the announcements in relation to the respective Comparable Issues ranged from a premium of approximately 150.00% to a discount of approximately 23.64%, with an average and median premiums of approximately 35.52% and 23.69% respectively;

(v) the conversion price as compared to the average closing price of the last 180 trading days prior to/on the announcements in relation to the respective Comparable Issues ranged from a premium of approximately 101.88% to a discount of approximately 95.51%, with an average and median premiums of approximately 10.93% and 19.19% respectively; and

(vi) the conversion price as compared to the average closing price of the last 365 trading days prior to/on the announcements in relation to the respective Comparable Issues ranged from a premium of approximately 79.21% to a discount of approximately 97.03%, with an average discount of approximately 0.11% and a median premium 4.81%.

Based on the above, as the Conversion Price (i) is at a premium of approximately 6.4% over the average closing price per Share for the last sixty (60) consecutive trading days up to and including the Last Trading Date; (ii) is within the range between the minimum discount of the conversion price of 23.64% and the maximum premium of the conversion price of 150.00% over or to the average closing price for the last 60 consecutive trading days; (iii) is within the range between the minimum discount of the conversion price of 95.51% and the maximum premium of the conversion price of 101.88% over or to the average closing price for the last 180 consecutive trading days; and (iv) is within the range between the minimum discount of the conversion price of 97.03% and the maximum premium of the conversion price of 79.21% over or to the average closing price for the last 365 consecutive trading days, we are of the view that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

Theoretical dilution effect

The theoretical dilution effect of the Comparable Issues ranged from a discount of approximately 0.32% to a discount of approximately 44.82%, with an average discount of approximately 11.28% and a median discount of approximately 4.60%. In this regard, we noted that the theoretical dilution effect of the Subscription (i.e., 18.54%) falls within the range of that of the Comparable Issues and is in compliance with Rule 7.27B of the Listing Rules as such theoretical dilution effect is less than 25%.

Conclusion

Having considered the above analysis and the reasons as set out in the section headed "B. Reasons for and benefits of the Subscription" above, we are of the view that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms.

F. Effect on the shareholding structure of the Company

The following table illustrates (i) the shareholding structure of the Company as at the Latest Practicable Date and (ii) the shareholding structure immediately after the 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 Latest Practicable Date up to the issue of the Conversion Shares):

	As at the Latest Practicable Date		**Immediately after full conversion of the Convertible Bond into Conversion Shares at the initial Conversion Price without adjustment**	
	No. of Shares	*Approx. % of issued share capital of the Company*	*No. of Shares*	*Approx. % of enlarged issued share capital of the Company*
China Asia Group Inc. *(Note 1)*	2,112,395,735	74.93%	4,446,895,735	70.00%
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**	**100.00%**	**6,352,702,084**	**100.00%**

Notes:

1. China Asia Group Inc. is wholly-owned by Mr. Huang and hence Mr. Huang is deemed to be interested in the 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 holder(s) of the Convertible Bond, amongst others; the Company will be able to satisfy the public float requirement under Rule 8.08 of the Listing Rules.

As illustrated in the above table, upon full conversion of the Convertible Bond, the aggregate shareholding of the existing public Shareholders will increase from approximately 25.07% as at the Latest Practicable Date to approximately 11.12%. As the aggregate percentage of the public Shareholders upon the full conversion of the Convertible Bond is 30%, the Company can ensure that no less than 25% of the shareholding of the Company will be held by the public at all times in compliance with the minimum public float requirement of the Listing Rules.

In addition, taking into account:

(i) the theoretical dilution effect of the Subscription falls within the range from approximately 0.32% to 44.82% of the Comparable Issues as shown in the table under the section headed "E. Assessment of the principal terms of the Subscription" above and is in compliance with Rule 7.27B of the Listing Rules as such theoretical dilution effect is less than 25%;

(ii) the reasons for and benefits of the Subscription as stated in the section headed "B. Reasons for and benefits of the Subscription and the use of proceeds" above; and

(iii) the reasonableness and fairness of the Conversion Price as analysed under the section headed "E. Assessment of the principal terms of the Subscription" above,

we consider that the potential dilution of the shareholding interests of the existing public Shareholders in the Company is acceptable.

G. Financial effects as a result of the proposed issue of the Convertible Bond

The financial effects of the issue of the Convertible Bond by the Company set out below are purely for illustrative purposes only and do not reflect the future financial position of the Company or the Group after the Subscription Completion.

1. Net assets value and gearing

It is expected that the Subscription will not have an immediate material impact on the net asset value and gearing ratio of the Group. However, the net asset value and gearing ratio of the Group are expected to improve upon the conversion of the Convertible Bond with the reduction in the overall indebtedness and the increase in total equity of the Group. Assuming the Convertible Bond is fully converted immediately after the Subscription, the net assets of approximately HK$131.2 million as at 31 December 2022 will be increased by approximately HK$353.4 million to net assets of approximately HK$484.6 million. Accordingly, the gearing ratio, which was calculated by total liabilities divided by the net assets value of the Group, will be reduced from approximately 1.84 as at 31 December 2022 to approximately 0.50.

2. Earnings

On initial recognition, the Convertible Bond shall be recognised as a compound financial instrument with a conversion option, which comprises an equity component and a liability component, on the consolidated financial statements of the Company. The carrying amount of the liability component is first determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the Convertible Bond as a whole. The liability component of the Convertible Bond is subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss. As such, it is expected that the Subscription will improve the earnings of the Group by reducing finance costs.

H. Our view on the Subscription

Having considered the abovementioned principal factors and reasons, in particular that:

(i) the reasons for and benefits of the Subscription as stated in the section headed "B. Reasons for and benefits of the Subscription" above;

(ii) the terms of the Convertible Bond are on normal commercial terms, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole;

(iii) the premiums represented by the Conversion Price is within the range but above the median of those of the Comparable Issues;

(iv) the interest rate and term to maturity of the Convertible Bond fall within the range of the Comparable Issues; and

(v) the potential theoretical dilution effect to the shareholding interest of the other public Shareholders arising from the Subscription is acceptable,

we are of the view that although the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Company, the terms of the Convertible Bond and the transactions contemplated thereunder (including the grant of the Specific Mandate for the issue of the Conversion Shares) on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that (i) the Tenancy Agreement; and (ii) the Subscription Agreement (including the issue of the Convertible Bond) are on normal commercial terms or better although it is not in the ordinary and usual course of business of the Group, and the terms 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) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM 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).

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and is a responsible officer of Donvex Capital Limited who has around 21 years of experience in corporate finance advisory.

* *For identification purposes only*

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the financial years ended 31 December 2020, 2021 and 2022 and for the six months ended 30 June 2023 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk/) and the Company (www.00063.cn/):

(a) on pages 38 to 102 of the annual report of the Company for the year ended 31 December 2020 published on 28 April 2021 (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042801195.pdf);

(b) on pages 34 to 100 of the annual report of the Company for the year ended 31 December 2021 published on 25 April 2022 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042500206.pdf);

(c) on pages 39 to 116 of the annual report of the Company for the year ended 31 December 2022 published on 21 April 2023 (https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0421/2023042100231.pdf);

(d) on pages 3 to 30 of the interim report of the Company for the six months ended 30 June 2023 published on 15 September 2023 (https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0915/2023091500320.pdf).

2. INDEBTEDNESS

As at the close of business on 31 August 2023, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had indebtedness totalling approximately HK$233.6 million comprising the following:

	Note	**As at 31 August 2023** *HK$'000* *(unaudited)*
Bank borrowings, secured	*1*	160,000
Amount due to controlling shareholder, unsecured and unguaranteed		7,000
Amount due to former ultimate holding company, unsecured and unguaranteed		65,357
Lease liabilities, unsecured and unguaranteed		1,251
		233,608

Note:

1. The bank borrowings are secured by the Group's certain investment properties and bank deposits as at 31 August 2023.

Save as aforesaid and apart from intra-group liabilities and normal trade payables and accruals in the ordinary course of business, at the close of business on 31 August 2023, the Group did not have any debt securities issued and outstanding or authorised or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, lease liabilities, or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors are not aware of any material adverse change in the Group's indebtedness position and contingent liabilities since 31 August 2023.

3. MATERIAL ADVERSE CHANGE

Save for the expected loss attributable to owners of the Company for the six months ended 30 June 2023 of approximately HK$2.7 million, as disclosed in the announcement of the Company dated 17 August 2023, as at the Latest Practicable Date, the Directors confirmed that there has been no material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL SUFFICIENCY

The Group recorded a loss of approximately HK$47,007,000 for the year ended 31 December 2022. As at 31 December 2022, the Group had net current liabilities of approximately HK$216,066,000. There is a material uncertainty related to these conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Taking into account the Group's business prospects and financial resources (including internal resources and available banking facilities) and the financial effect of the Transactions, the Directors, after due and careful enquiry, are of the opinion that the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this circular. The Group has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

5. PROSPECTS

The Group is principally engaged in property investment, property management, horticultural services, sales of plants, and related services such as gardening and environmental landscaping.

For the year ended 31 December 2022, the revenue of the Group increased by HK$2,065,000 or 5.5% from HK$37,810,000 for the year ended 31 December 2021 to HK$39,875,000 for the year ended 31 December 2022, mainly due to an increase in revenue from its property management and other related services segments. As disclosed in the 2023 Interim Report, the Group had total assets of approximately HK$374.8 million, with cash and cash equivalents amounting to approximately HK$5.7 million. For further details, please refer to pages 4 to 8 of the section headed "Management Discussion and Analysis" of the 2022 Annual Report and pages 31 to 36 of the section headed "Management Discussion and Analysis" of the 2023 Interim Report.

Looking ahead, the Group targets to enhance its property management and other related services business which will boost the Group's revenue and profit. The Group will further enhance its competitive edge and synergies of regional businesses in line with its development strategy of stable and steady operation, and enhance and consolidate its long-term competitiveness.

In 2022, the Group established two subsidiaries in Fujian and Guizhou, respectively. The management of the Company (the "**Management**") believes that this geographical expansion will not only expand the Company's business and enhance its returns, but also improve its market competitiveness. The Management considers that the geographical expansion of the property management services segment will enable the Group to expand its business portfolio, diversify its income stream, broaden its revenue base and potentially enhance its financial performance. The Management will inform the Shareholders and potential investors of the business update on the Group's development in such geographical expansion.

Further, the Management has addressed the qualified audit opinion concerning the investment in Japan and Taiwan during the year ended 31 December 2022. As the audit issues of these two investments have been resolved, the Management will focus its resources on developing the business of the Group for the benefit of the Company. Nevertheless, the Management and the Board strive to enhance the Shareholder value of the Company in the foreseeable future.

The Management will also endeavour to facilitate the completion of the Transactions so as to strengthen the project portfolio and overall financial performance of the Company.

Save as disclosed above and in this circular, as at the Latest Practicable Date, the Directors were not aware of any material information which may be relevant to the financial prospects of the Group which are unlikely to be known or anticipated by the general public, and which could materially affect the financial position of the Group.

6. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis of the Group for the year ended 31 December 2022 extracted from the 2022 Annual Report and for the six months ended 30 June 2023 extracted from the 2023 Interim Report. Unless otherwise defined in this circular or the context otherwise requires, capitalised terms used in this section shall have the same meanings as those ascribed in the 2022 Annual Report and 2023 Interim Report.

i) For the year ended 31 December 2022

Property management and other related services

Since the second half of 2020, the Group expanded its property management and other related business in the PRC and entered into service contracts with two China properties developers (i) Shenzhen Houting Yayuan Investment Co., Ltd.*（深圳市后亭雅苑投資有限公司）with the properties managed located at Shajing East to Songsha Road South to Neway Factory West to Zhongting Road East Road, Bao'an District, Shenzhen*（深圳市寶安區沙井東至松沙路南至紐威廠西至中亭路北至中亭東路）; (ii) Shenzhen

Hongxing Yayuan Property Co., Ltd.*（深圳市紅星雅苑置業有限公司）with the properties manage located at Juncture of Songming Avenue and Baoan Avenue, Songgang Street, Bao'an District, Shenzhen*（深圳市寶安區松崗街道松明大道與寶安大道交匯處）. The Group also engaged property management business with properties under management located at Shajing Centre, Shenzhen of the Guangdong – Hong Kong – Macao Greater Bay Area（粵港澳大灣區深圳市沙井中心）. During the year ended 31 December 2022, the Group recorded a revenue of HK$27,768,000 (2021: HK$25,407,000) from this business segment.

Horticultural services and sales of plants business

The Group also operates horticultural services and sales of plants business under the brand name of "Cheung Kee Garden", which has over forty years of history. Revenue from provision of horticultural services and sales of plants during the year ended 31 December 2022 slightly decreased by HK$171,000 or 2.6% from HK$6,514,000 for the year ended 31 December 2021 to HK$6,343,000 for the year ended 31 December 2022.

Property investment

The Group has 30 units of investment properties in Hong Kong. Rental income derived from these investment properties decreased by HK$125,000 or 2.1% from HK$5,889,000 for the year ended 31 December 2021 to HK$5,764,000 for the year ended 31 December 2022, mainly due to the decrease in the average rental income per apartment unit.

Employee

As at 31 December 2022, the Group had a total of 149 employees (2021: 117), including directors. Staff cost increased by HK$1,317,000 or 7.7% from HK$17,186,000 for the year ended 31 December 2021 to HK$18,503,000 for the year ended 31 December 2022, mainly due to salary increment with effect from January 2022 and the increase in the number of headcounts for the year ended 31 December 2022. The Directors' fees are subject to shareholders' approval at general meetings every year. Other emoluments are determined by the Board on the recommendation of the Remuneration Committee with reference to Directors' duties, responsibilities and performance and the results of the Group. No Director or any of his or her associates was involved in deciding his or her own remuneration.

Other property management related expenses

Other property management related expenses increased by HK$2,308,000 or 32.8% from HK$7,047,000 for the year ended 31 December 2021 to HK$9,355,000 for the year ended 31 December 2022, mainly due to a one-off repair and maintenance expenditure of HK$1,573,000 (2021: Nil) in our service site in Shenzhen, the PRC., and an increase in the management fee charged by the service provider and maintenance costs.

Other operating and administrative expenses

Other operating and administrative expenses decreased by HK$1,888,000 or 20.6% from HK$9,185,000 for the year ended 31 December 2021 to HK$7,297,000 for the year ended 31 December 2022, mainly due to a decrease in the legal and professional fees incurred for the year ended 31 December 2022.

Finance costs

Finance costs represented interests on bank borrowings and lease liabilities. Finance costs increased by HK$1,426,000 or 41.6% from HK$3,428,000 for the year ended 31 December 2021 to HK$4,854,000 for the year ended 31 December 2022, due to an increase in the interest rates on the bank loans for the year ended 31 December 2022.

Loss for the year

For the year ended 31 December 2022, the Group's loss attributable to the owners of the Company increased by HK$46,677,000 from HK$330,000 for the year ended 31 December 2021 to HK$47,007,000 for the year ended 31 December 2022. The significant increase in the loss for the year ended 31 December 2022was mainly due to the fair value loss on our investment properties of approximately of HK$46,000,000 charged for the current year (2021: Nil).

Gearing ratio

As at 31 December 2022, the gearing ratio of the Group was 183.6% (31 December 2021: 136.3%) (which is calculated by dividing the Group's total liabilities by its total equity).

Foreign exchange risk

The functional and presentation currency of the Group is the Hong Kong dollars. With the majority of the Group's operations taking place in the PRC and Hong Kong, most revenue and expenditure transactions are denominated and settled in Renminbi and Hong Kong dollars. The Group considers the risk exposure to foreign currency fluctuation would be essentially in line with the performance of the exchange rate of RMB. No financial instrument was used for hedging purposes.

Charge over the group's assets

The Group has pledged its investment properties as collateral for bank borrowings. As at 31 December 2022, the fair value of those pledged investment properties amounted to HK$346,000,000 (2021: HK$392,000,000).

Bank loans of HK$160,000,000 as at 31 December 2022 (2021: HK$160,000,000) are secured by (i) the investment properties of HK$346,000,000 (2021: HK$392,000,000), (ii) a charge over deposits for the total principal amount of not less than HK$4,000,000 together with interest accrued thereon (2021: HK$4,000,000), (iii) bank deposits (excluding the charged portion) of not less than HK$7,000,000 (2021: HK$7,000,000), (iv) deposit of rental income from properties to a designated bank account which is charged to the bank, and (v) maintenance of an occupancy rate of 60% or above in investment properties (which, if fallen below 60%, shall be raised by the borrower to 60% or above within three months) (2021: 60%).

Interest rate exposure

As at 31 December 2022, all of the Group's bank borrowings in the principal amount of HK$160,000,000 were at floating rates. The interest rate of the Company's bank borrowings as at 31 December 2022 was 2% per annum over one– month HIBOR or 0.5% per annum below HK$ prime rate, whichever is lower (2021: 2% per annum over one-month HIBOR or 0.5% per annum below HK$ prime rate, whichever is lower).

Contingent liabilities

As at 31 December 2022, there was no significant contingent liabilities.

Liquidity and financial resources

All the Group's funding and treasury activities are centrally managed and controlled at the corporate level. The Group's monetary assets and liabilities are denominated and the Group conducts its business transactions principally in Hong Kong dollars and Renminbi same as compared to last year. As at 31 December 2022, there were outstanding bank loans in the principal sum of HK$160,000,000 (2021: HK$160,000,000). The Group's working capital requirements in 2022 were funded with bank loans and advances from its holding company and related companies totalling HK$65,357,000 (2021: HK$68,000,000).

On 14 March 2023, the Company drew the renewed bank loans which should be fully repaid within 48 months from drawdown date as follows:

No. of installments	Principal repayment date	Repayment amount of each installment
1st	12 months after March 2023	10% of the original principal amount
2nd	24 months after March 2023	10% of the original principal amount
3rd	36 months after March 2023	10% of the original principal amount
4th	48 months after March 2023	All the outstanding balance

The Group recorded net current liabilities of approximately HK$216,066,000 as at 31 December 2022 (2021: HK$215,020,000).

The Company has received written confirmation from its controlling shareholder that he will continue to provide financial support to the Company to meet all the obligations of the Company to the extent that it is unable to meet those obligations itself.

Significant investment

During the year ended 31 December 2022, the Group had no significant investment.

Future plan for material investments or capital assets

The Group did not have any future plans for material investments or capital assets as at 31 December 2022.

Dividend policy

The Company has adopted a dividend policy (the "**Dividend Policy**"), pursuant to which the Company may distribute dividends to the shareholders of the Company by way of cash or shares. Any distribution of dividends shall be in accordance with the Bye-laws of the Company and the distribution shall achieve continuity, stability and sustainability. The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's earnings per share, the reasonable return in investment of the investors and the shareholders in order to provide incentive to them to continue to support the Group in the longrun, the financial conditions and business plan of the Group, and market sentiment and circumstances. The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

Material acquisitions and disposals

Reference is made to the Company's announcement dated 12 January 2022. On 12 January 2022, the Group entered into a sale and purchase agreement with a purchaser, pursuant to which the Group sold the entire issued shares of Sky Heritage Holdings Limited ("**Disposal Company**"), an indirect wholly-owned subsidiary of the Company, at a consideration of HK$10,000 to an independent third party. As shown in the 2017 Annual Report of the Company, the Disposal Company held 28% of the issued shares in the Five Color Stone Technology Corporation, an investment holding company, which in turn held the entire equity interest in the Taiwan Xigu Applied Materials Limited*（台灣烯谷應材股份有限公司）, an investment holding company, and 80% equity interest in Taiwan Mutron Applied Materials Limited（台灣美創應材股份有限公司）, a company which was principally engaged in manufacturing and sale of graphene and graphene-related products, respectively. Completion took place immediately following the execution of the sale and purchase agreement.

References are made to the Company's announcements dated 6 July 2022 and 29 July 2022. On 6 July 2022, the Company entered into a sale and purchase agreement with a purchaser (an independent third party) to dispose of the entire issued shares of WI Capital Co. Limited ("**WI Capital**") at a consideration of HK$10,000. Completion took place on 29 July 2022 and the Company ceased to hold any shares of the WI Capital. The Directors consider that there will be no material adverse impact to the financial position and business operations of the Company as a whole as the results of this disposal.

Except for the above, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2022.

ii) For the six months ended 30 June 2023

Property management and other related services

The Group provides property management and other related services in the PRC and entered into service contracts with two China properties developers (i) Shenzhen Houting Yayuan Investment Co., Ltd.*（深圳市后亭雅苑投資有限公司）with the properties under management located at Shajing East to Songsha Road South to Neway Factory West to Zhongting Road East Road, Bao'an District, Shenzhen*（深圳市寶安區沙井東至松沙路南至紐威廠西至中亭路北至中亭東路）; and (ii) Shenzhen Hongxing Yayuan Property Co., Ltd.*（深圳市紅星雅苑置業有限公司）with the properties under management located at Juncture of Songming Avenue and Baoan Avenue, Songgang Street, Bao'an District, Shenzhen*（深圳市寶安區松崗街道松明大道與寶安大道交匯處）. Revenue from property management and other related services decreased by HK$1,021,000 or 6.9% from HK$14,825,000 for the six months ended 30 June 2022 to HK$13,804,000 for the six months ended 30 June 2023, mainly due to the decrease in the areas under management.

Horticultural services and sales of plants business

The Group also operates horticultural services and sales of plants segment under the brand name of "Cheung Kee Garden" for over forty years. Revenue from the provision of horticultural services and sales of plants slightly increased by HK$40,000 or 1.3% from HK$3,107,000 for the six months ended 30 June 2022 to HK$3,147,000 for the six months ended 30 June 2023.

Property investment

Rental income derived from investment properties increased by HK$188,000 or 6.6% from HK$2,868,000 for the six months ended 30 June 2022 to HK$3,056,000 for the six months ended 30 June 2023, mainly due to an increase in the average rental income per apartment unit.

Employee

As at 30 June 2023, the Group had a total 182 employees (31 December 2022: 149). Staff costs increased by HK$2,239,000 or 26.5% from HK$8,446,000 for the six months ended 30 June 2022 to HK$10,685,000 for the six months ended 30 June 2023.

Employees (including directors) are remunerated based on their work performance, professional experience and prevailing industry practice. The remuneration policy and package of the Group's employees are periodically reviewed by the management. Apart from the retirement benefits, discretionary bonuses are awarded to certain employees according to assessments of their individual performance.

Other property management related expenses

Property related expenses increased by HK$639,000 or 19.0% from HK$3,369,000 for the six months ended 30 June 2022 to HK$4,008,000 for the six months ended 30 June 2023, mainly due to an increase in the management fee charged by the service provider and maintenance costs.

Other operating and administrative expenses

Other operating and administrative expenses increased by HK$1,066,000 or 35.2% from HK$3,026,000 for the six months ended 30 June 2022 to HK$4,092,000 for the six months ended 30 June 2023, mainly due to an increase in the legal and professional fees incurred.

Finance costs

Finance costs increased by HK$2,079,000 or 117.5% from HK$1,769,000 for the six months ended 30 June 2022 to HK$3,848,000 for the six months ended 30 June 2023, mainly due to an increase in the interest rates on the bank loans for the six months ended 30 June 2023.

Loss for the period

The Group's loss for the six months ended 30 June 2023 was HK$2,797,000 as compared to the profit of HK$2,130,000 for the six months ended 30 June 2022. The turning from profit to loss was primarily due to an increase in staff costs, legal and professional fees and finance costs on bank loans.

Gearing ratio

The gearing ratio of the Group was 179% as at 30 June 2023. Gearing ratio was calculated based on total debts divided by total equity. The amount of total debts was calculated by aggregating the bank and other borrowings, lease liabilities and amounts due from its controlling shareholder and former ultimate holding company.

Pledge of assets

As at 30 June 2023, investment properties and bank deposits with an aggregate value of not less than of approximately HK$357,413,000 (31 December 2022: HK$360,891,000) were pledged to the bank to secure bank loans granted to the Company.

As at 30 June 2023, bank loans of HK$160,000,000 (31 December 2022: HK$160,000,000) are secured by (i) the investment properties of HK$346,000,000 (31 December 2022: HK$346,000,000), (ii) a charge over deposits for the total principal amount of not less than HK$4,000,000 together with interest accrued thereon (31 December 2022: HK$4,000,000), (iii) bank deposits (excluding the charged portion) of not less than HK$7,000,000 (31 December 2022: HK$7,000,000), and (iv) assignment of rental income from investment properties to a designated bank account which is charged to the bank, with an undertaking to maintain occupancy rate of 60% or above in investment properties (which, if fallen below 60%, shall be raised by the borrower to 60% or above within three months (31 December 2022: 60%)).

During the six months ended 30 June 2023, the Board was not aware of any violation of bank covenants attached to the interest-bearing bank loan that would trigger breaches of the covenants such that the lenders may demand immediate repayment.

Interest rate exposure

As at 30 June 2023, all of the Group's bank borrowings in the principal amount of HK$160,000,000 were at floating rates. The interest rate of the Company's bank borrowings as at 30 June 2023 was 2% per annum over one-month HIBOR or 0.5% per annum below HK$ prime rate, whichever is lower (2022: 2% per annum over one-month HIBOR or 0.5% per annum below HK$ prime rate, whichever is lower).

Contingent liabilities

As at 30 June 2023, there was no significant contingent liabilities.

Liquidity and financial resources

All the Group's funding and treasury activities are centrally managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Company's latest annual report. The Group's monetary assets and liabilities are denominated and the Group conducts its business transactions principally in Hong Kong dollars ("**HK$**").

As at 30 June 2023, there were outstanding bank loans in the sum of HK$160,000,000. The Group's working capital requirements are funded with bank loans, advance from its controlling shareholder and former ultimate holding company and cash generated from its ordinary course of business.

Several portions of the Group's assets, liabilities and operations are denominated in non-HK$ which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the Group will closely monitor its foreign exchange exposure and will consider hedging of significant currency exposure should the need arise.

Significant investment

The Group has no significant investment held as at 30 June 2023.

Future plan for material investments or capital assets

Reference is made to the Company's announcement dated 6 June 2023. On 6 June 2023, Shenzhen Zhongya Industry Operation Co., Ltd.*(深圳市中雅產業運營有限公司), an indirectly wholly-owned subsidiary of the Company, entered into a conditional tenancy agreement with Shenzhen Qiangang China Asia Electronic City Group Co., Ltd.*(深圳市坐崗中亞電子城集團有限責任公司) for the sub-lease of an aggregate area of 350,855 square-metres at the Silicon Valley Industrial Park for a total rent of approximately RMB1,413.4 million (equivalent to approximately HK$1,590.1 million), subject to the fulfillment of condition precedents, including but not limited to independent shareholders approval requirements under the Listing Rules. The deposit for the rental of the premises under the tenancy agreement in the amount of RMB282.6 million (equivalent to approximately HK$318.0 million) is expected to be financed by the net proceeds raised through the proposed issue of 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.

Except for the above, the Group did not have other plans for material investments or capital assets as at 30 June 2023.

Material acquisitions and disposals

The Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2023.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Introduction to Unaudited Pro Forma Financial Information of The Enlarged Group

The following is an illustrative unaudited pro forma financial information including unaudited pro forma consolidated statement of assets and liabilities and unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**"), which has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effects upon completion of (i) the very substantial acquisition and connected transaction in relation to the Tenancy Agreement and (ii) the Subscription Agreement in relation to the subscription of the Convertible Bond (collectively referred to as the "**Transactions**") as if they had taken place on 30 June 2023 for the unaudited pro forma consolidated statement of assets and liabilities and as if they had taken place on 1 January 2022 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income.

The Unaudited Pro Forma Financial Information are prepared based on

(a) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2023 as set out in the Group's published interim report dated 30 August 2023;

(b) the audited consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 as set out in the Group's published annual report dated 30 March 2023;

(c) the unaudited pro forma adjustments relating to the Transactions that are (i) directly attributable to the Transactions and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties and currently available information.

Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual assets and liabilities and financial performance of the Enlarged Group that would have been attained have the Transactions been completed on 30 June 2023 or 1 January 2022, nor purport to predict the Enlarged Group's future financial position and financial performance.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Company for the six months ended 30 June 2023, the published annual report of the Company for the year ended 31 December 2022, and other financial information included elsewhere in the Circular.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position and financial performance of the Enlarged Group had the Transactions been completed as at 30 June 2023 or 1 January 2022, where applicable, or any future date.

(2) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of The Enlarged Group as at 30 June 2023

	The assets and liabilities of the Group as at 30 June 2023	Pro forma adjustments				Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
Non-current assets						
Property, plant and equipment	952					952
Right-of-use assets	1,448	999,719		150,920		1,152,087
Investment properties	346,000					346,000
Deposit	–			156,046		156,046
	348,400					1,655,085
Current assets						
Inventories	731					731
Trade and other receivables	8,471					8,471
Tax recoverable	64					64
Pledged bank deposits	11,413					11,413
Cash and bank balances	5,720		353,360	(306,966)	(1,024)	51,090
	26,399					71,769
Current liabilities						
Trade and other payables	15,215					15,215
Amounts due to related parties	69,357					69,357
Lease liabilities	376	44,504				44,880
Bank borrowings	160,000					160,000
	244,948					289,452
Net current liabilities	(218,549)					(217,683)
Total assets less current liabilities	129,851					1,437,402
Non-current liabilities						
Lease liabilities	1,026	955,215				956,241
Convertible bond	–		183,815			183,815
	1,026					1,140,056
Net assets	128,825		169,545		(1,024)	297,346

(3) Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Enlarged Group

	The Group for the year ended 31 December 2022	Pro forma adjustments							Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 4*	*Note 6*	*Note 7*	*Note 8*	*Note 9*	*Note 10*	*Note 11*	
Revenue	39,875								39,875
Other income	1,010								1,010
Gain on disposal of subsidiaries	20								20
Staff costs	(18,503)								(18,503)
Depreciation and amortisation expenses	(1,513)				(117,199)				(118,712)
Other property management related expenses	(9,355)								(9,355)
Other operating and administrative expenses	(7,297)		(1,024)						(8,321)
Fair value loss on investment properties	(46,000)								(46,000)
Loss from operations	(41,763)								(159,986)
Loss on issuance of convertible bond	–	(70,672)							(70,672)
Finance costs, net	(4,854)			7,775		(77,083)	(32,718)		(106,880)
Loss before taxation	(46,617)								(337,538)
Income tax expense	(390)								(390)
Loss for the year	(47,007)								(337,928)
Other comprehensive income									
Item that may be reclassified subsequently to profit or loss:									
– Exchange differences arising on translating foreign operations	(1,032)							(28,486)	(29,518)
Total comprehensive expenses for the year	(48,039)								(367,446)

Notes:

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2023 which is part of the condensed consolidated financial statements of the Group included in the Company's published interim report dated 30 August 2023 (the "**Interim Condensed Financial Statements**") and the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2022 which is part of the consolidated financial statements of the Group included in the Company's published annual report dated 30 March 2023.

2. For the purposes of the unaudited pro forma consolidated statement of assets and liabilities, the amounts of the pro forma adjustments in Renminbi ("**RMB**") are translated into Hong Kong dollars ("**HK$**") at the exchange rate of RMB1 to HK$1.0811, which is the prevailing exchange rate on 30 June 2023. For the purposes of the unaudited pro forma statement of comprehensive income, the amounts of the pro forma adjustments in RMB are translated into HK$ at the exchange rate of RMB1 to HK$1.1700, which is the average exchange rate for the year ended 31 December 2022.

3. The pro forma financial information is prepared in a manner consistent with both the format and accounting policies adopted by the Group in the Interim Condensed Financial Statements and therefore the pro forma financial information is materially consistent with the accounting bases used by the Group. Pursuant to Hong Kong Financial Reporting Standard 16 Leases ("**HKFRS 16**"), the entering into the Tenancy Agreement by the Group as a lessee will result in the Group recognising a right-of-use asset and the corresponding lease liability in its consolidated financial statements. As a result of the adoption of HKFRS 16 in the preparation of the pro forma financial information, the entering into the Tenancy Agreement would result in the recognition of a right-of-use asset and a lease liability at the commencement date of the lease. For the purpose of the pro forma consolidated statement of assets and liabilities, it is assumed that at the assumed commencement date of the lease of 30 June 2023, lease liabilities will be initially recognised with initial measurement amount of approximately RMB924,749,000 (equivalent to HK$999,719,000) and the right-of-use assets with initial measurement amount of approximately RMB1,064,351,000 (equivalent to HK$1,150,639,000), which comprise (i) the initial measurement amount of the lease liabilities of approximately RMB924,749,000 (equivalent to HK$999,719,000) and (ii) initial direct costs of approximately of RMB139,602,000 (equivalent to HK$150,920,000) as mentioned in note 5, will also be initially recognised. The lessee's incremental borrowing rate as at 30 June 2023 of 7.20% is applied in discounting the lease payments to arrive at the pro forma initial measurement amount of the lease liabilities recognised as if the Tenancy Agreement had been effective and the lease had been commenced on 30 June 2023.

   Since the initial measurement amounts of the related right-of-use assets and lease liabilities as at the actual commencement date of the Tenancy Agreement may be materially different from the above pro forma initial measurement amounts, the actual amounts of the assets and liabilities to be recorded in the consolidated financial statements of the Enlarged Group may be materially different.

   The Group intends to enter into arrangements to sublease the leased assets to third parties while the original lease contracts are in effect. The Group expects that these subleases will be classified as operating leases under HKFRS 16, hence the Group, as the intermediate lessor, will continue to account for the lease liabilities and right-of-use assets on the head leases like any other lease in accordance with HKFRS 16.

4. The Convertible Bond will be classified separately into three components upon initial recognition: debt component, equity component in relation to conversion option and derivative component in relation to the Company's right to early redeem the Convertible Bond. For the purpose of preparing the Unaudited Pro Forma Financial Information, the directors estimated that the pro forma fair value of the Convertible Bond would be approximately HK$424,032,000, with reference to a professional valuation as at 31 July 2023, being the latest practicable date for the purpose of calculating the pro forma fair value of the Convertible Bond prior to the printing of this circular, conducted by LCH (Asia-Pacific) Surveyors Limited. For financial reporting purposes, the Convertible Bond will be recognised in the consolidated financial statements of the Group as comprising host debt liability, equity and derivative components. The pro forma fair value as at 30 June 2023 of the host debt liability component of approximately HK$183,815,000 has been estimated by the discounted cash flow approach using the discount rate determined based on prevailing market borrowing rates of similar non-convertible borrowings. The effective interest rate adopted is 17.80%. The pro forma fair value as at 30 June 2023 of the derivative component is estimated by the directors of the Company to be insignificant and represented the early redemption option of the Company to early redeem the debt liability at principal amount of the debt prior to maturity date of the Convertible Bond. The pro forma carrying amount of the conversion option embedded in the Convertible Bond recognised in equity in the consolidated financial statements of the Group upon initial recognition of the Convertible Bond is HK$240,217,000 determined using the residual approach as the difference between the pro forma fair value of the Convertible Bond and the pro forma fair values of the host debt and derivative components of the Convertible Bond.

   The inputs into the estimation of the pro forma fair values of the Convertible Bond and its host debt liability were as follows:

Closing market price of the Company's shares as at 31 July 2023	HK$0.12
Discount rate	17.80%
Risk free rate	3.68%
Credit risk premium	14.12%
Option life	5 years

   Since the fair values of the Convertible Bond and its host debt liability and derivative components as at the completion date may be materially different from the pro forma values used in the preparation of the Unaudited Pro Forma Financial Information, the actual amounts of the assets and liabilities to be recorded in the consolidated financial statements of the Enlarged Group in relation to the Convertible Bond upon the completion may be materially different from the pro forma amounts shown in this appendix.

   Proceed of issue of the 5 year Convertible Bond is estimated to be HK$353,360,000. The difference between the proceed and the pro forma fair value of the Convertible Bond on initial recognition, of approximately HK$70,672,000, is charged to the profit or loss as loss on initial recognition of the Convertible Bond.

5. The adjustment represents the refundable rental deposit of approximately RMB283,946,000 (equivalent to HK$306,966,000) paid by the Group in accordance with the terms of Tenancy Agreement. The rental deposit is recognised as a financial asset and initially measured at its pro forma fair value of approximately RMB144,344,000 (equivalent to HK$156,046,000) which is measured as the present value of all future cash receipts of the financial asset discounted using the rate of 7.00% per annum which reflect the market interest rates as at 30 June 2023 taking into account prevailing market conditions and risks specific to the deposit. The difference between the amount paid of RMB283,946,000 and initial measurement amount of the rental deposits at the commencement date is regarded as initial direct costs of obtaining the lease and will be recognised as part of the costs of the right-of-use assets and amortised over its lease period.

6. The adjustment represents the estimated legal and professional fees relating to the entering into the Transactions and issue of the Convertible Bond of approximately HK$1,024,000 which are charged to profit or loss immediately.

7. The adjustment represents imputed interest of approximately RMB6,645,000 (equivalent to HK$7,775,000) for the year ended 31 December 2022 using the pro forma discount rate of 3.21%, which reflect the market interest rates as at 1 January 2022 taking into account prevailing market conditions and risks specific to the deposit, in relation to the carrying value of rental deposit which is classified as financial asset measured at amortised cost. The adjustment is expected to have a continuing effect on the Group.

8. The adjustment represents the recognition of depreciation expenses of the right-of-use assets of approximately RMB100,167,000 (equivalent to HK$117,199,000) as if the Tenancy Agreement had been effective and the lease had been commenced on 1 January 2022, based on the pro forma initial measurement amount of right-of-use assets as at 1 January 2022 which comprise (i) the pro forma initial measurement amount of the lease liabilities of approximately RMB924,749,000 (equivalent to HK$1,132,985,000) and (ii) the pro forma initial direct costs of approximately of RMB76,923,000 (equivalent to HK$94,245,000). The difference between the amount of deposit paid of RMB283,946,000 and initial measurement amount of the rental deposit at the assumed commencement date of 1 January 2022 of RMB207,023,000 using the pro forma discount rate of 3.21%, which reflect the market interest rates as at 1 January 2022, is regarded as initial direct costs of obtaining the lease. The right-of-use assets are depreciated over the lease period of 10 years for the Tenancy Agreement on a straight-line basis. The adjustment is expected to have a continuing effect on the Group.

9. The adjustment represents the interest expenses incurred for the lease liabilities of approximately RMB65,881,000 (equivalent to HK$77,083,000) as if the Tenancy Agreement had been effective and the lease had been commenced on 1 January 2022. Under HKFRS 16, all leases are required to be capitalised as right-of-use assets and lease liabilities. The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate. Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made. The lessee's incremental borrowing rate applied to lease liabilities recognised as if the Tenancy Agreement had been effective and the lease terms had been commenced on 1 January 2022 is 7.2%. The adjustment is expected to have a continuing effect on the Group.

10. The adjustment represents the interest expense of approximately HK$32,718,000 for the year ended 31 December 2022 on the debt component of the Convertible Bond based on the prevailing market interest rate of 17.80% for similar non-convertible borrowings as if the issuance of the Convertible Bond had been completed on 1 January 2022.

11. The adjustment represents the exchange difference from the foreign operation for the year ended 31 December 2022.

12. Save as aforesaid, no other adjustments have been made to reflect any trading results or other transactions of the Group or Enlarged Group entered into subsequent to 31 December 2022.

(B) ACCOUNTANTS' REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report, in respect of the unaudited pro forma financial information prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Fan, Chan & Co. Limited, Certified Public Accountants, Hong Kong.

范陳會計師行有限公司
Fan, Chan & Co. Limited

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of China Asia Valley Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Asia Valley Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2023, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2022 and related notes as set out on pages II-1 to II-6 of Appendix II of the Company's circular dated 31 October 2023 (the "**Circular**") in connection with (i) the very substantial acquisition and connected transaction in relation to the tenancy agreement and (ii) the subscription agreement in relation to the subscription of the Convertible Bond (collectively referred to as the "**Transactions**"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on pages II-1 to II-6 of Appendix II of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Transactions on the Group's assets and liabilities as at 30 June 2023 as if the Transactions had taken place on 30 June 2023, and on the Group's financial performance for the year ended 31 December 2022 as if the Transactions had been taken place at 1 January 2022. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2023, on which no audit or review report has been published, and information about the Group's financial performance has been extracted by the directors of the Company from the Company's consolidated financial statements for the year ended 31 December 2022, on which an auditor's report with qualified opinion on the consolidated financial statements, has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management 1 "Quality Management for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transactions at 30 June 2023 or 1 January 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Other Matters

Without qualifying our opinion, we draw your attention to the matters described in the Basis of Qualified Opinion section in the Independent Auditor's Report included in the Group's published annual report dated 30 March 2023 which might have consequential effects on the consolidated profit or loss of the Group for the year ended 31 December 2022 and the Materiality Uncertainty Related to the Going Concern section in that auditor's report.

Fan, Chan & Co. Limited
Certified Public Accountants
Leung Kwong Kin
Practising Certificate Number: P03702
Hong Kong
31 October 2023

The following is the valuation report, prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuation as at 31 August 2023 of the leasehold interest under the Tenancy Agreement.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
PROPERTY VALUERS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

*The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standards ("**IVS**") and published by the International Valuation Standards Council. The standard entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader's identification purposes only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute to this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to us at the date of this report. If additional documents and facts are made available, we reserve the right to amend this report and its conclusions.*

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road Central
Hong Kong

31 October 2023

The Board of Directors
China Asia Valley Group Limited
Rooms 1237-1240, 12th Floor
Sun Hung Kai Centre
No. 30 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions given by the present management of China Asia Valley Group Limited (hereinafter referred to as the "**Instructing Party**") to us to conduct an agreed-upon procedures valuation of designated leasehold interests of a property (hereinafter referred to as the "**Leasehold Interests**" and details refer III-8 in this report) in which China Asia Valley Group Limited (hereinafter referred to as the "**Company**") and its subsidiaries (collectively, together with the Company hereinafter referred to as the "**Group**") are proposed to acquire in the People's Republic of China (the "**PRC**" or "**China**"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary to support our findings and our conclusion of fair value of the Leasehold Interests as at 31 August 2023 (hereinafter referred to as the "**Valuation Date**") for the Company's internal management reference purpose. We are given to understand the property is proposed to be leased by the Group for a term of ten years. We understand that this report will be included in the Company's circular i.e. this document for its shareholders' reference.

We understand that the use of our work product (regardless of form of presentation) will form part of the Instructing Party's due diligence but we have not been engaged to make specific sales or purchase recommendations, or give opinion for financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision regarding the Leasehold Interests valued. Our work is designed solely to provide information that will give the Instructing Party a reference in its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party. Our findings and conclusion of value of the property interest is documented in this report and submitted to the Instructing Party at today's date.

BASIS OF VALUE

We were instructed to assess the Fair Value of the Leasehold Interests of the property and the term Fair Value is defined as:

"the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction".

APPROACH TO VALUE AND ASSUMPTIONS

Having considered the inherent characteristics of the Leasehold Interests, we have assessed the fair value of the Leasehold Interests by using the cash flow approach of the investment method in its existing state by considering the economic benefits to be generated from the 10 years lease arrangement. We cannot find similar leasehold Interests transaction with similar tenure to use, so market approach is not applicable. In our valuation, we considered the net present value of economic benefits to be received by the Group from holding the Leasehold Interests as an investment property. The economic benefits are the rental income received during the lease term after deducting the operating expenses such as management and cleaning charges till the expiry of the lease. A market derived yield then applied to the net income. As instructed, we have not considered the lease expenses to be paid by the Group to the owners of the Leasehold Interests.

Key assumptions/parameters adopted in the valuation include:

➢ market rent as at Valuation Date RMB38/square metre/month

➢ normal vacancy rate of 5%

- 5% growth per annum for rental income
- discount rate of 8%

Unless otherwise stated, we have not carried out study of possible alternative development options and the related economics do not come within the scope of our work.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuation accordingly.

In assessing the economic benefit to be generated from the Leasehold Interests, we have discussed with the appointed personnel of the Company and we were advised that the personnel has rich experience in real estate property leasing. We have relied on the advices and rental forecast provided by the appointed personnel of the Company.

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Leasehold Interests valued nor any expenses or taxation which may be incurred in affecting sales for the Leasehold Interests. Unless otherwise stated, it is assumed that the Leasehold Interests are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their value.

As at the date of this report, unless otherwise stated, we were unable to identify any adverse news against the Leasehold Interests which may affect the reported value in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the Leasehold Interests. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the value reported herein.

ESTABLISHMENT OF TITLES

We have not been provided with copies of the title documents relating to the Leasehold Interests. However, we have been provided with the lease agreements and lists of licence agreements. However, we have not searched the original documents to verify ownership or to verify any amendments on the agreements which may not appear on the copies handed to us. We are not legal professional and we are unable to ascertain the title and encumbrances (if any) registered against the Leasehold Interests. All documents and leases have been used as reference only. No responsibility and liability are assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTY

We have conducted inspection to the exterior, where possible, the interior of some property on 16 June 2023. The inspection was conducted by Sr Elsa Ng. We have also relied on recent updates from the Instructing Party on the status of the property in conducting this valuation. However, we have not inspected the property which were covered, unexposed or inaccessible and such parts have been assumed to be in a reasonable condition. We cannot express an opinion about or advice upon the condition of the Leasehold Interests and the attached Leasehold Interests particulars with value should not be taken as making any implied representation or statement about the condition of the Leasehold Interests. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the property inspected. We are not, however, able to report that the property are free from rot, infestation or any other structural defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the areas of the property, but have assumed that the areas shown on the documents and official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the Leasehold Interests did not include an independent land survey to verify the legal boundaries of the Leasehold Interests. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of such Leasehold Interests that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the Leasehold Interests should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction or formation of the Leasehold Interests, or has since been incorporated, and we are therefore unable to report that the Leasehold Interests are free from risk in this respect, and therefore we have not considered such factors in our valuation.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Leasehold Interests and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the Leasehold Interests. We have not carried out any investigation into past or present uses, either of the Leasehold Interests or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Leasehold Interests from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the Leasehold Interests or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported or affect our findings.

SOURCES OF INFORMATION AND ITS VERIFICATION

In the course of our work, we have been provided with copies of the documents regarding the Leasehold Interests, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures did not require us to conduct any searches or to inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the Instructing Party or the appointed personnel of the Company.

We have relied solely on the information and rental forecast provided by the Instructing Party or the appointed personnel of the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, lease documents, tenancy lists, site and floor areas and all other relevant matters.

Our valuation has been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local real property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility and liability from our part is assumed.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the Instructing Party or its appointed personnel of the Company in our works, the assumptions and caveats that adopted by them in arriving at their figures also applied to this report. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the Instructing Party or the appointed personnel of the Company. Also, we have sought and received confirmation from the Instructing Party or the appointed personnel of the Company that no material factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the Instructing Party of material and latent facts that may affect the works.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party or the appointed personnel of the Company. We consider that we have been provided with sufficient information to reach an informed view, and have had no reasons to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuen ("**RMB**").

OPINION OF VALUE

Based on the above information and assumptions, we are of the opinion that the amount of valuation (free of transaction costs) of the Leasehold Interests leased by the Group for internal management reference purpose of the Company as at the Valuation Date in its existing state, was in the order of **RENMINBI ONE BILLION FIFTY-EIGHT MILLION AND TWO HUNDRED THOUSAND ONLY (RMB1,058,200,000).**

LIMITING CONDITIONS

Our findings or conclusion of value of the Leasehold Interests in this report are valid only for the stated purpose and only for the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

Our valuation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the Leasehold Interests, and that the inspections and the use of this report do not purport to be a building survey of the Leasehold Interests. We have assumed that the Leasehold Interests are free of rot and inherent danger or unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise this report to reflect events or conditions which occur or make known to us subsequent to the date hereof. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, prospectus or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this document to the Group's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

It is agreed that the Company and the Instructing Party are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

This valuation report is prepared in line with the reporting guidelines contained in HKFRS 16 and IVS, as well as the requirements contained in Chapter 5 of the Listing Rules. The valuation has been undertaken us, acting as external valuer (see End Notes), qualified for the purpose of this valuation.

We retain a copy of this report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from the date it provided to us and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analysis or valuation of the Leasehold Interests depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings or conclusion of value significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion and we have no significant interest in the Leasehold Interests, the Group or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui B.Sc. M.Sc. RPS (GP)
Executive Director

Contributing Valuer:
Rock Li Kai Lok BA(Hons)

Sr Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong, Macau and mainland China since 1994. She is a Fellow of The HKIS and a valuer on the List of Properties Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

LEASEHOLD INTERESTS PARTICULARS WITH VALUE

Leasehold Interests to be leased by the Group in the PRC

Leasehold Interests	Description and tenure	Particulars of occupancy	Amount of valuation in existing state as at 31 August 2023
The whole Zones A, B and C of Silicon Valley Industrial Park Shajing Street, Bao'an District, Shenzhen, Guangdong Province The PRC （深圳市寶安區沙井街道硅谷產業園A,B,C區）	The property comprises the whole of Zone A, B and C of the Silicon Valley Industrial Park providing a total gross floor area of 350,855 square metres ("**sq.m.**"). According to the information available to us, the renovation work of the property was completed and operated as Silicon Valley Industrial Park in around 2015. The property is divided into different themes including cultural, hi-technologies, educational, biomedical parks for various usages including conference halls, office, workshops, research and development centres. The property is situated at the western side of Shenzhen, near Qianhai area. It takes around one hour driving distance from the property to Shenzhen Bao'an International Airport and Shenzhen Bay Port. The locality is mixed with modern industrial, commercial, residential usages as well as institutional facilities.	As confirmed by the Instructing Party and the appointed personnel of the Group, the property is operating as an electronics logistics park. It has approximately 334,000 sq.m. of area (approximately 95% of the total area) subject to various licence agreements while the remaining was vacant as at the Valuation Date. *(see Note 2and 3)*	RMB1,058,200,000 (100 per cent. interest)

Notes:

1. Pursuant to an agreement dated 19 October 2013, the property has been leased to Shenzhen Qiangang China Asia Electronic City Group Co., Ltd.（深圳市坐崗中亞電子城集團有限公司）and known as "China Asia Electronic", a related party of the Company, by Shenzhen Shajing Bogang Corporative Co., Ltd.（深圳市沙井坐崗股份有限公司）for 20 years commencing from 19 October 2013 till 18 January 2034. China Asia Electronic can renovate the property to operate a large-scale electronic logistics park.

2. On 6 June 2023, the Group (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 at the Silicon Valley Industrial Park.

3. According to the information provided to us, the property was subject to various licence agreements entered between China Asia Electronic and various parties with the latest expiry date up to 24 March 2033 for an aggregate monthly licence fee of approximately RMB11,444,000, exclusive of management fees and air-conditioning charges.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Director's and chief executive's interests and short positions in the Company

As at the Latest Practicable Date, the interests and short positions, of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571) (the "**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") contained in Appendix 10 to the Listing Rules, were as follows:

Long position in the Shares:

Name of Director	Nature of interest	Number and class of Shares held	Approximate percentage of interest
Mr. Huang	Interest of controlled corporation *(Notes 1, 2 & 3)*	4,446,895,735 ordinary shares	157.74%

Notes:

1. As at the Latest Practicable Date, Mr. Huang was deemed to be interested in the 2,112,395,735 Shares held by CA Group under Part XV of the SFO by virtue of his direct beneficial ownership in 100% of the shares of CA Group. Mr. Huang is also a director of CA Group.

2. Under the terms and conditions of the Convertible Bond, 2,334,500,000 Conversion Shares are to be allotted and issued to CA Group upon full conversion of the Convertible Bond at the Conversion Price.

3. 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.

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

Substantial shareholders' and other persons' interests in the shares and underlying shares of the Company

As at the Latest Practicable Date, so far as was known to the Directors based on the register maintained by the Company pursuant to Part XV of the SFO, other than the interests of the Directors, proposed directors and chief executives of the Company as disclosed above, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which need to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Long position in the Shares:

Name of Shareholder	**Nature of interest**	**Number and class of Shares held**	**Approximate percentage of interest** *(Note 6)*
CA Group	Beneficial owner *(Note 1)*	4,446,895,735 ordinary shares	157.74%
Zhongjun Holding Group Company Limited (i.e. Subscriber 1)	Beneficial owner *(Notes 2, 4 & 5)*	951,500,000 ordinary shares	33.75%
Mr. Li Jun	*Interest of controlled corporation (Note 5)*	951,500,000 ordinary shares	33.75%
Mr. Xiong (i.e. Subscriber 2)	*Beneficial owner (Notes 3 & 4)*	247,600,000 ordinary shares	8.78%

Notes:

1. As at the Latest Practicable Date, Mr. Huang was deemed to be interested in the 2,112,395,735 Shares beneficially held by CA Group under Part XV of the SFO by virtue of his direct beneficial ownership in 100% of the shares of CA Group. Under the terms and conditions of the Convertible Bond, 2,334,500,000 Conversion Shares are to be allotted and issued to CA Group upon full conversion of the Convertible Bond at the Conversion Price.

2. These 951,500,000 Shares represent the 951,500,000 Conversion Shares to be allotted and issued to Subscriber 1 upon full conversion of the Convertible Bond at the Conversion Price.

3. These 247,600,000 Shares represent the 247,600,000 Conversion Shares to be allotted and issued to Subscriber 2 upon full conversion of the Convertible Bond at the Conversion Price.

4. 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.

5. Zhongjun Holding Group Company Limited (i.e. Subscriber 1) is wholly owned by Mr. Li Jun. Therefore, Mr. Li Jun is deemed to be interested in the 951,500,000 Shares being the underlying shares representing the Conversion Shares to be issued and allotted to Zhongjun Holding Group Company Limited upon the full conversion of the Convertible Bond held by it under Part XV of the SFO.

6. The percentage was calculated based on 2,819,102,084 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons or companies who had any interest or short position in the Shares or underlying Shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

As at the Latest Practicable Date, (i) save for Mr. Huang's interest in the premises to be leased by the Group under the Tenancy Agreement, none of the Directors or proposed directors had any direct or indirect interest in any assets which had been, since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired by or disposed of or leased to any member of the Group, or were proposed to be acquired by or disposed of or leased to any member of the Group; or (ii) save for the Tenancy Agreement and the Subscription Agreement, none of the Directors were materially interested in any contract or arrangement subsisting and which is significant in relation to the business of the Group.

4. INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors, proposed directors or any of their respective close associates (as defined in the Listing Rules) had any interest in a business that competes or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

6. EXPERTS AND CONSENT

The following are the qualification of the experts who have given opinions or advice which are contained in this circular:

Name	Qualifications
Donvex Capital Limited	A licensed corporation permitted to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
LCH (Asia-Pacific) Surveyors Limited	Independent professional valuer
Fan, Chan & Co. Limited	Certified Public Accountants and Registered Public Interest Entity Auditor

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, opinion and report of the date of this circular and references to its name in the form and context in which it appears.

As of the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which had since 31 December 2022 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group.

As of the Latest Practicable Date, none of the above experts was beneficially interested in the share capital of any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

7. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Company (www.00063.cn) and the website of the Stock Exchange (www.hkexnews.hk) for a period of 14 days from the date of this circular:

(a) the Tenancy Agreement;

(b) the Supplemental Tenancy Agreement;

(c) the Subscription Agreement;

(d) the 1st Deed of Amendment;

(e) the 2nd Deed of Amendment;

(f) the 3rd Deed of Amendment;

(g) the letter of advice from Donvex Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 45 to 91 in this circular;

(h) the report in relation to the unaudited pro forma financial information of the Group from Fan, Chan & Co. Limited, the text of which is set out in Appendix II to this circular;

(i) the Valuation Report prepared by the Valuer, the text of which is set out in Appendix III to this circular; and

(j) the written consents referred to the above paragraph headed "6. Experts and consent" in this appendix.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

9. MATERIAL CONTRACTS

Save as disclosed below, there were no contracts entered into by the members of the Group which were not entered into in the ordinary course of business of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(a) the Subscription Agreement;

(b) the 1st Deed of Amendment, the 2nd Deed of Amendment and the 3rd Deed of Amendment;

(c) the sale and purchase agreement dated 12 January 2022 entered into between China Graphene Holdings Limited (as vendor) ("**China Graphene**", a wholly-owned subsidiary of the Company) and Yao Shi Li Capital HongKong Co., Limited (as purchaser) (the "**Purchaser**"), pursuant to which, China Graphene has agreed to sell and the Purchaser has agreed to purchase 1 ordinary share of Sky Heritage Holdings Limited at a consideration of HK$10,000; and

(d) the sale and purchase agreement dated 6 July 2022 entered into between the Company (as vendor) and the Purchaser, pursuant to which, the Company has agreed to sell and the Purchaser has agreed to purchase 80,000 shares of WI Capital Co. Limited at a consideration of HK$10,000.

10. MISCELLANEOUS

(a) The company secretary of the Company is Dr. Leung Wai Ping, Noel, who is a member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company's principal place of business in Hong Kong is situated at Rooms 1237–1240, 12th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

(c) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) In the event of any inconsistency, the English texts of this circular shall prevail over its Chinese texts.

CHINA ASIA VALLEY GROUP LIMITED
中亞烯谷集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 63)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of China Asia Valley Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") will be held at Rooms 1237–1240, 12th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Friday, 17 November 2023 at 11:00 a.m. to consider, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the tenancy agreement dated 6 June 2023 and the supplemental agreement dated 12 October 2023 (collectively, the "**Tenancy Agreement**") (a copy of which, signed by the chairman of the Meeting for the purpose of identification, has been produced to the Meeting marked "A" and "B") entered into between 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, as tenant, and Shenzhen Qiangang China Asia Electronic City Group Co., Ltd.*(深圳市坣崗中亞電子城集團有限責任公司), as landlord, in respect of the lease of certain area at the Silicon Valley Industrial Park located in Shajing Street, Bao'an District, Shenzhen, the PRC upon and subject to the terms and conditions as set out therein and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and

(b) any director of the Company be and is hereby authorised to do all such acts and things and execute all such documents (whether under common seal or not) which he/she considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Tenancy Agreement and the transactions contemplated thereunder."

2. "**THAT**:

(a) the subscription agreement dated 6 June 2023 entered into between the Company, as issuer, and (i) Mr. Huang Binghuang; (ii) Zhongjun Holding Group Company Limited*(中軍控股集團有限公司)("**Subscriber 1**"); and (iii) Xuhong International

Corporation*（旭宏國際有限公司）("**Xuhong**"), as subscribers, as amended and supplemented by (A) a deed of amendment dated 21 July 2023 entered into between the Company, Mr. Huang Binghuang, Subscriber 1, Xuhong and China Asia Group Inc. ("**CA Group**"); (B) a deed of amendment dated 29 August 2023 entered into between the Company, Subscriber 1, Xuhong and CA Group; and (C) a deed of amendment dated 12 October 2023 entered into between the Company, CA Group, Subscriber 1, Mr. Xiong Guoqiang*（熊國強）and Xuhong (collectively, the "**Subscription Agreement**") (copies of which, signed by the chairman of the Meeting for the purpose of identification, has been produced to the Meeting marked "C", "D", "E" and "F" respectively), in respect of the issue the convertible bond (the "**Convertible Bond**") in an aggregate principal amount of HK$353,360,000 upon and subject to the terms and conditions as set out therein and the transactions contemplated thereunder (including the Specific Mandate (defined hereafter)), be and are hereby approved, confirmed and ratified;

(b) the issue of Convertible Bond by the Company in accordance with the terms and conditions of the Convertible Bond be and is hereby approved;

(c) the allotment and issue of new ordinary shares of HK$0.05 each in the share capital of the Company (the "**Conversion Shares**") which may fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bond in accordance with the terms and conditions of the Convertible Bond be and are hereby approved;

(d) conditional upon, among others, the listing committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of, and permission to deal in, the Conversion Shares, the specific mandate to the Directors to exercise the powers of the Company for the issue of Convertible Bond and the allotment and issue of the Conversion Shares (the "**Specific Mandate**") in accordance with the terms and conditions of the Convertible Bond be and is hereby approved. The Specific Mandate is in addition to, and shall not prejudice or revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the directors of the Company prior to the passing of this resolution; and

(e) any director of the Company be and is hereby authorised to do all such acts and things and execute all such documents (whether under common seal or not) which he/she considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Subscription Agreement (including the issue of the Convertible Bond) and the transactions contemplated thereunder (including the Specific Mandate)."

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

Hong Kong, 31 October 2023

* *For identification purposes only*

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal office in Hong Kong:
Rooms 1237-1240, 12th Floor
Sun Hung Kai Centre
30 Harbour Road, Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his behalf at the Meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member of the Company who is an individual or a member of the Company which is a corporation shall be entitled to exercise the same powers on behalf of the member of the Company which he/she or they represent as such member of the Company could exercise.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof, it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.

3. To be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy thereof must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than Wednesday, 15 November 2023 at 11:00 a.m. (Hong Kong time).

4. For the purpose of determining members who are qualified for attending the Meeting, the register of members of the Company will be closed from Tuesday, 14 November 2023 to Friday, 17 November 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Monday, 13 November 2023.

5. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting convened and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

6. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

7. The voting at the Meeting shall be taken by way of poll.