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China Hongguang Holdings Limited

中國宏光控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8646)

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO ACQUISITION OF THE TARGET GROUP**

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

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
溢博資本有限公司

On 13 April 2021, the Company entered into the Equity Sale and Purchase Agreement with Ming Liang Global, pursuant to which the Company has agreed conditionally to acquire, and Ming Liang Global has agreed conditionally to sell, the Sale Shares at a consideration of HK\$64,200,000. The Consideration shall be settled by way of (i) issue and allotment of 99,000,000 Consideration Shares issued at an issue price of HK\$0.32 per Consideration Share, such that the total value of the Consideration Shares will be HK\$31,680,000, and (ii) issuance of the Convertible Bonds in the principal amount of HK\$32,520,000.

As at the date of this announcement, Ming Liang Global holds approximately 50.25% of the issued share capital of the Company and is therefore a connected person of the Company. Since one or more applicable percentage ratios (as defined in the GEM Listing Rules) of the Equity Sale and Purchase Agreement are above 5%, according to Chapter 20 of the GEM Listing Rules, the transactions contemplated under the Equity Sale and Purchase Agreement will constitute non-exempted connected transaction of the Company and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

Since the highest applicable ratio (as defined in the GEM Listing Rules) in relation to the Equity Sale and Purchase Agreement exceeds 25% but is less than 100%, according to Chapter 19 of the GEM Listing Rules, the transactions contemplated under the Equity Sale and Purchase Agreement also constitute major transactions of the Company and are subject to the reporting, announcement and shareholders' approval requirements.

The Independent Board Committee comprising of all the independent non-executive Directors will be formed to advise the Independent Shareholders on the transactions contemplated under the Equity Sale and Purchase Agreement, and Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions contemplated under the Equity Sale and Purchase Agreement, and whether such transactions are in the interests of the Company and its shareholders as a whole.

A circular containing, among other things, further information on the terms of the Equity Sale and Purchase Agreement, a letter from the Independent Board Committee, an opinion from Rainbow Capital, together with a notice to convene the EGM to approve the Equity Sale and Purchase Agreement, is expected to be despatched to the shareholders as soon as possible and in any event, no later than 31 May 2021 (after taking into account the estimated time required for the Company to prepare relevant information for inclusion in the circular).

MAJOR TERMS OF THE EQUITY SALE AND PURCHASE AGREEMENT

Date

13 April 2021

Parties

Purchaser: the Company

Vendor: Ming Liang Global

Subject matter

The Company has agreed conditionally to acquire, and Ming Liang Global has agreed conditionally to sell, the Sale Shares, which represent the total issued share capital of the Target Company.

The Target Company is a newly incorporated company, which holds the entire equity interest in Guangdong Longjian. Upon Completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company, and the Company will indirectly engage in construction business through Guangdong Longjian.

At present, the Reorganisation of the holding companies of Guangdong Longjian is in the course of implementation. Upon completion of the Reorganisation, Ming Liang Global will acquire the Target Company from Ms. Lin Weishan, executive Director and chairwoman of the Company, at the consideration of HK\$64,200,000.

Consideration

Pursuant to the Equity Sale and Purchase Agreement, the Consideration of HK\$64,200,000 shall be payable by the Company to Ming Liang Global by way of (i) issue and allotment of Consideration Shares to Ming Liang Global at an issue price of HK\$0.32 per Consideration Share, i.e. 99,000,000 new Shares for total HK\$31,680,000 in value, and (ii) issuance of the Convertible Bonds in the principal amount of HK\$32,520,000 entitling Ming Liang Global to convert at the Conversion Price of HK\$0.32 per Conversion Share into a maximum of 101,625,000 Conversion Shares, on the Completion Date.

The consideration of the Equity Sale and Purchase Agreement was determined after arm's length negotiations with reference to (i) the preliminary business valuation of 100% equity interest in Guangdong Longjian of approximately HK\$64.2 million as at 6 April 2021 as appraised by Vincorn Consulting and Appraisal Limited, an independent valuer, using the market approach; and (ii) the profit guarantee provided by Ming Liang Global to the Company under the Agreement as set out in the section headed "Profit guarantee" below.

The Consideration Shares represent:

- (i) approximately 33.00% of the issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 19.78% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares and the Conversion Shares upon conversion of the Convertible Bonds in full.

The principal terms of the Convertible Bonds are as follows:

Issuer:	The Company
Principal amount:	HK\$32,520,000
Maturity date:	The Convertible Bonds are perpetual securities in respect of which there is no fixed maturity date
Interest:	The Convertible Bonds do not bear any interest
Redemption:	Redemption is available in limited circumstances, namely redemption for taxation reasons
Conversion price:	HK\$0.32 per Conversion Share (subject to adjustments as stated below)

Conversion rights: The holder of the Convertible Bonds shall, subject to compliance with the procedures set out in the conditions to the Convertible Bonds, have the right at any time from the issue date to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in its name into Conversion Shares, provided further that any conversion shall be made in amounts of not less than a whole multiple of HK\$813,000 on each conversion.

Ming Liang Global's exercise of the conversion rights under the Convertible Bonds shall be subject to the Company's compliance of the public float requirement under the GEM Listing Rules.

Conversion adjustments: The Conversion Price will be subject to adjustments upon the occurrence of the following events:

- (i) consolidation, subdivision and reclassification of Shares;
- (ii) capitalisation of profits or reserves;
- (iii) capital distribution to Shareholders made by the Company;
- (iv) rights issues of Shares, options or warrants over Shares;
- (v) rights issues of other securities other than Shares, options or warrants;
- (vi) issue of Shares at a price less than 80% of the market price of the Shares;
- (vii) issue of other securities at a price less than 80% of the market price of the Shares;
- (viii) modification of the rights of conversion, exchange or subscription of the securities mentioned under paragraph (vii) to make the price less than 80% of the market price of the Shares;
- (ix) other offers to Shareholders, in connection with an offer the Shareholders generally are entitled to participate, by the Company or its subsidiaries or other person; and
- (x) other events that the Company or the holders of the Convertible Bonds determine that an adjustment should be made to the Conversion Price.

Ranking:	The Conversion Shares, when issued upon conversion of Convertible Bonds, will rank <i>pari passu</i> with the Shares then in issue.
Transferability:	The Convertible Bonds are not transferable.
Voting rights:	The Convertible Bonds do not confer any voting rights.
Listing:	The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which fall to be allotted and issued upon exercise of the conversion right of the Convertible Bonds.

Assuming full exercise of the conversion rights attaching to the Convertible Bonds at the conversion price of HK\$0.32, the Company will issue an aggregate of 101,625,000 Conversion Shares, which represent: (i) approximately 33.88% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 20.30% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares and the Conversion Shares upon conversion of the Convertible Bonds in full.

The Consideration Shares and the Conversion Shares when allotted and issued, will rank *pari passu* in all respects among themselves and with all existing Shares then in issue on the date of such issue and allotment, including the right to receive all future dividends and distributions declared, made or paid by the Company on or after the date of the issue of the Consideration Shares and the Conversion Shares. The Consideration Shares and the Conversion Shares will be issued under the specific mandate to be granted by the Shareholders in the EGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares.

The issue price of HK\$0.32 per Consideration Share at which the Consideration Shares will be allotted and issued and the Conversion Price of HK\$0.32 per Conversion Share (subject to adjustments) represent:

- (i) a premium of approximately 6.67% over the closing price of HK\$0.30 per Share as quoted on the Stock Exchange on the date of the Agreement;
- (ii) a premium of approximately 0.31% over the average closing price of HK\$0.319 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the date of the Agreement;
- (iii) a discount of approximately 4.38% over the average closing price of HK\$0.334 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the date of the Agreement;

- (iv) a discount of approximately 11.82% over the average closing price of HK\$0.357833 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the date of the Agreement; and
- (v) a premium of approximately 0.72% over the average closing price of HK\$0.317722 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the date of the Agreement.

The issue price and the Conversion Price were determined after arm's length negotiation between the Company and Ming Liang Global with reference to the recent price performance and trading liquidity of the Shares and the prevailing market conditions.

Profit guarantee

Pursuant to the Equity Sale and Purchase Agreement, Ming Liang Global has covenanted and guaranteed to the Company that the audited consolidated net profit after taxation (excluding extraordinary or exceptional items) of the Target Group shall not be less than RMB9,100,000 for each of the two financial years ending 31 December 2022.

If the aggregate audited net profit after taxation (excluding extraordinary or exceptional items) for the two financial years ending 31 December 2022 (the "**Aggregate Profit**") is less than RMB18,200,000, Ming Liang Global shall compensate the Company in cash an amount equivalent to the difference between RMB18,200,000 and the Aggregate Profit on or before 30 June 2023 or any other date agreed by the parties.

The amount of the profit guarantee above was determined by Ming Liang Global and the Company after arm's length negotiations with reference to current operation status and secured contracts as well as the expected growth of the business of Guangdong Longjian.

Conditions precedent

Completion is conditional upon fulfilment or waiver (as the case may be) of the following conditions:

- (i) the Company having obtained the approval from its Independent Shareholders in respect of, *inter alia*, (a) the Acquisition; and (b) the issue of the Consideration Shares and the Convertible Bonds to Ming Liang Global pursuant to the terms of the Equity Sale and Purchase Agreement, in the manner required by the GEM Listing Rules;
- (ii) the Company having obtained the approval from the Board in respect of the transactions contemplated under the Equity Sale and Purchase Agreement as well as the allotment and issue of the Consideration Shares and the Convertible Bonds;

- (iii) Ming Liang Global having held 100% equity interest in the Target Company, which in turn holds 100% equity interest in Guangdong Longjian indirectly;
- (iv) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares;
- (v) all of the warranties and representations contained in the Agreement remaining true, correct, complete, accurate and not misleading in all material respects at Completion, as if repeated at Completion and all undertakings contained in the Agreement, to the extent that it is capable of being fulfilled prior to the Completion Date, having been fulfilled in all respects;
- (vi) the purchaser, the vendor and the Target Company having complied with the GEM Listing Rules in all respects for the Acquisition; and
- (vii) the Company being satisfied with the results of the legal and/or financial due diligence review on the Target Group.

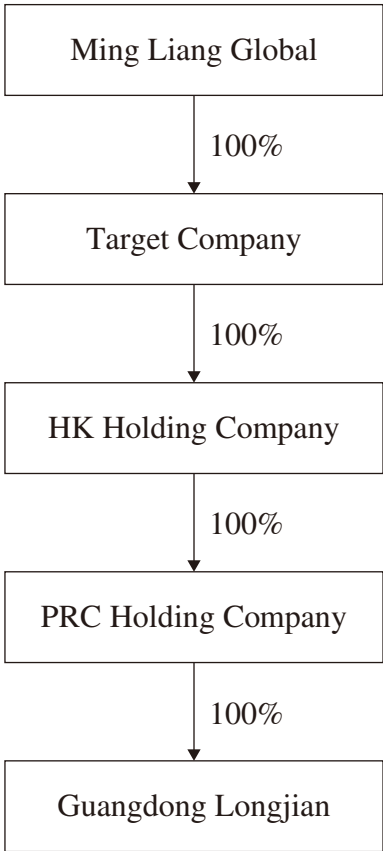
If the conditions above have not been fulfilled or waived (as the case may be) within six months from the date of the Agreement (or such later date as the parties may agree), the Equity Sale and Purchase Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the Agreement.

Completion

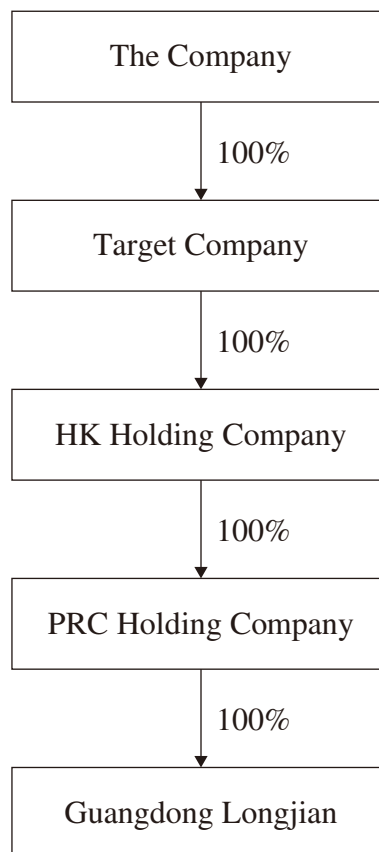
Completion shall take place within seven business days after fulfilment or waiver (as the case may be) of all the conditions precedent to the Agreement, or such other date as the parties to the Agreement may agree in writing. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the consolidated financial statements of the Group.

INFORMATION OF THE TARGET GROUP AND GUANGDONG LONGJIAN

The shareholding structure of the Target Group immediately before the Completion is as follows:



The structure of shareholding of the Target Group held by the Company immediately after the Completion is as follows:



The Target Company to be formed will become the indirect holding company of Guangdong Longjian, without carrying other business activities.

Guangdong Longjian is principally engaged in city and road lighting engineering construction; outdoor sports facility engineering construction; professional contracting of mechanical and electrical equipment installation engineering; earthwork engineering services; housing construction engineering construction; architectural steel structure and prefabricated component engineering installation services; interior decoration, design; landscaping engineering services; municipal administration public works construction; commodity wholesale trade (except for approved commodities); commodity retail trade (except for approved commodities).

As at 31 December 2020, the unaudited net asset value of Guangdong Longjian is RMB24,441,324.80. The revenue and net profits for the last three financial years are as follows:

	For the year ended 31 December 2018 (audited according to PRC accounting standard)	For the year ended 31 December 2019 (audited according to PRC accounting standard)	For the year ended 31 December 2020 (unaudited)
Revenue	RMB77,664,518.29	RMB41,724,473.86	RMB27,819,390.83
Net profits (before taxation)	RMB2,002,213.31	RMB1,381,483.39	RMB1,347,928.80
Net profits (after taxation)	RMB1,444,166.41	RMB1,195,075.29	RMB1,310,870.77

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company has 300,000,000 Shares in issue. Set out below is the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the Completion and the allotment and issue of Consideration Shares and Conversion Shares:

	As at the date of this announcement		Immediately after the Completion and the allotment and issue of Consideration Shares		After the Completion and the allotment and issue of Consideration Shares and Conversion Shares*	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Ming Liang Global	150,750,000	50.25	249,750,000	62.59	351,375,000	70.19
Orient Success Ventures Limited	49,500,000	16.50	49,500,000	12.41	49,500,000	9.89
Public Shareholders	99,750,000	33.25	99,750,000	25.00	99,750,000	19.92
Total	<u>300,000,000</u>	<u>100.00</u>	<u>399,000,000</u>	<u>100.00</u>	<u>500,625,000</u>	<u>100.00</u>

* Ming Liang Global's exercise of the conversion rights under the Convertible Bonds shall be subject to the Company's compliance of the public float requirement under the GEM Listing Rules.

GENERAL INFORMATION

The Group primarily engages in the manufacture and sale of architectural glass products, including energy-efficient safety glass products and smart glass product in Southern China, under its own brand “Hongguang”.

Ming Liang Global is an investment holding company incorporated in the British Virgin Islands and beneficially owned by Mr. Wei Jiakun (executive Director and chief executive officer of the Company), Ms. Lin Weishan (executive Director and chairwoman of the Company) and Ms. Liu Rong (mother of Mr. Wei Jiakun).

REASONS AND BENEFITS OF ENTERING INTO THE EQUITY SALE AND PURCHASE AGREEMENT

The Equity Sale and Purchase Agreement and the transactions contemplated thereunder are agreed on normal commercial terms after arm’s length negotiations. The Acquisition is intended to be a downstream expansion of the Group’s business, and the Group would be able to secure stable demand for its glass products, which are widely used in construction service.

Further, it is expected that Guangdong Longjian will expand the source of income of the Group by way of the aforesaid profit guarantee in the sum of RMB9,100,000 provided by Ming Liang Global for each of the two financial years ending 31 December 2022.

Having considered the above factors, the Board (excluding members of the Independent Board Committee whose views can only be formed after having been advised by Rainbow Capital) considers that the terms of the Equity Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and are in the interest of the Company and its shareholders as a whole.

APPROVAL OF THE BOARD

The Board has resolved to approve the transactions under the Equity Sale and Purchase Agreement. Save that Mr. Wei Jiakun and Ms. Lin Weishan are deemed to be interested in the Equity Sale and Purchase Agreement, none of the other Directors has abstained from voting on the relevant resolutions approving the transactions contemplated under the Equity Sale and Purchase Agreement.

IMPLICATIONS UNDER THE GEM LISTING RULES

As at the date of this announcement, Ming Liang Global holds approximately 50.25% of the issued share capital of the Company and is therefore a connected person of the Company. Since one or more applicable percentage ratios (as defined in the GEM Listing Rules) of the Equity Sale and Purchase Agreement are above 5%, according to Chapter 20 of the GEM Listing Rules, the transactions contemplated under the Equity Sale and Purchase Agreement will constitute non-exempted connected transaction of the Company and are subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements.

Since the highest applicable ratio (as defined in the GEM Listing Rules) in relation to the Equity Sale and Purchase Agreement exceeds 25% but is less than 100%, according to Chapter 19 of the GEM Listing Rules, the transactions contemplated under the Equity Sale and Purchase Agreement also constitute major transactions of the Company and are subject to the reporting, announcement and shareholders' approval requirements.

The Independent Board Committee comprising of all the independent non-executive Directors will be formed to advise the Independent Shareholders on the transactions contemplated under the Equity Sale and Purchase Agreement, and Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions contemplated under the Equity Sale and Purchase Agreement, and whether such transactions are in the interests of the Company and its shareholders as a whole.

A circular containing, among other things, further information on the terms of the Equity Sale and Purchase Agreement, a letter from the Independent Board Committee, an opinion from Rainbow Capital, together with a notice to convene the EGM to approve the Equity Sale and Purchase Agreement, is expected to be despatched to the shareholders as soon as possible and in any event, no later than 31 May 2021 (after taking into account the estimated time required for the Company to prepare relevant information for inclusion in the circular).

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares by the Company from Ming Liang Global in accordance with the terms and conditions of the Agreement
“Agreement” or “Equity Sale and Purchase Agreement”	the conditional Equity Sale and Purchase Agreement dated 13 April 2021 entered into by the Company and Ming Liang Global in respect of the Acquisition
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of directors of the Company
“Company”	China Hongguang Holdings Limited, a limited company incorporated in the Cayman Islands, and the issued Shares of which are listed on the GEM Board of the Stock Exchange (Stock Code: 8646)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement

“Consideration”	the consideration of HK\$64,200,000 for the acquisition of the Sale Shares
“Consideration Shares”	99,000,000 new Shares to be allotted and issued by the Company to Ming Liang Global to satisfy part of the Consideration
“Conversion Price”	the initial conversion price of HK\$0.32 per Conversion Share
“Conversion Shares”	the new Shares issuable upon exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the zero coupon convertible bond(s) in the principal amount of HK\$32,520,000 to be issued by the Company to Ming Liang Global in partial satisfaction of the Consideration
“Director(s)”	member(s) of the Board of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, (i) the Equity Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the granting of the specific mandate to allot and issue the Consideration Shares and the Conversion Shares upon conversion of the Convertible Bonds
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries from time to time
“Guangdong Longjian”	Guangdong Longjian Engineering Co., Ltd. (廣東隆建工程有限公司), a limited company incorporated in the PRC
“HK Holding Company”	a company to be incorporated in Hong Kong, which shall be a wholly-owned subsidiary of the Target Company and the holding company of the PRC Holding Company upon completion of Reorganisation

“Independent Board Committee”	a committee comprised of Ms. Chen Xiuyan, Mr. Jia Xiaogang and Mr. Wu Yong, all of whom are independent non-executive Directors of the Company, formed to advise the Independent Shareholders in connection with the transactions contemplated under the Equity Sale and Purchase Agreement
“Independent Shareholders”	shareholders other than the connected person(s) who is/are interested in the relevant transactions
“Ming Liang Global”	Ming Liang Global Limited, a company incorporated in the British Virgin Islands
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“PRC Holding Company”	a company to be incorporated in the PRC, which shall be a wholly-owned subsidiary of the HK Holding Company and the holding company of Guangdong Longjian upon completion of Reorganisation
“Rainbow Capital” and “Independent Financial Adviser”	Rainbow Capital (HK) Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
“Reorganisation”	reorganisation of the shareholding structure in respect of the holding companies of Guangdong Longjian
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Share(s)”	100% of the issued share capital of the Target Company
“Share(s)”	ordinary share of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	a company to be incorporated in the British Virgin Islands, which will become the indirect holding company of Guangdong Longjian

“Target Group”	the Target Company and its subsidiaries, including Guangdong Longjian
“%”	per cent

By the Order of the Board
China Hongguang Holdings Limited
LIN Weishan
Chairwoman and Executive Director

Hong Kong, 13 April 2021

As at the date of this announcement, the Executive Directors are Mr. WEI Jiakun, Ms. LIN Weishan, Mr. CHEN Biming and Ms. LI Wanna; and the Independent Non-Executive Directors are Ms. CHEN Xiuyan, Mr. JIA Xiaogang and Mr. WU Yong.

*This announcement, for which the directors of the Company (the “**Directors**”) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 announcement 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 in this announcement misleading.*

This announcement will remain on the “Latest Listed Company Information” page of GEM website at www.hkgem.com for at least seven days from the day of its posting. This announcement will also be published on the website of the Company at www.hongguang.hk.