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CODE AGRICULTURE (HOLDINGS) LIMITED

科地農業控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 8153)

DISCLOSEABLE TRANSACTION ACQUISITION OF 55% EQUITY INTEREST IN THE TARGET COMPANY INVOLVING ISSUE OF CONVERSION SHARES UPON CONVERSION OF CONVERTIBLE BONDS UNDER GENERAL MANDATE

The Board is pleased to announce that on 5 December 2019, the Company, SZHGT, the Target Company and the Vendor entered into the Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Equity Interest, being 55% of the entire equity interest in the Target Company, at the Consideration of HK\$41,000,000. The Consideration will be satisfied by the issue of the Convertible Bonds.

Upon completion of the transfer of the Equity Interest, the Target Company will become an indirect non-wholly owned subsidiary of the Company.

GEM LISTING RULES IMPLICATIONS

As one or more than one of the applicable percentage ratio(s) in respect of the Acquisition are greater than 5% and all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to notification and announcement requirements under Chapter 19 of the GEM Listing Rules.

As Completion is subject to the fulfilment of a number of conditions, the Acquisition may or may not proceed to Completion. Shareholders of the Company and potential investors should exercise caution when dealing in the shares or other securities of the Company.

INTRODUCTION

Reference is made to the voluntary announcement of the Company dated 23 October 2019 in relation to the entering into the MOU by the Company and the Target Company dated 23 October 2019, pursuant to which the Company intended to cooperate with the Target Company in vehicle production and processing, and operation of vehicle business.

On 5 December 2019, the Company, SZHGT, the Target Company and the Vendor entered into the Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Equity Interest, being 55% of the entire equity interest in the Target Company, at a total consideration of HK\$41,000,000.

Upon completion of the transfer of the Equity Interest, the Target Company will become an indirect non-wholly owned subsidiary of the Company.

AGREEMENT

The principal terms of the Agreement are set out below:

Date

5 December 2019

Parties

1. Mr. Guo Gelin (郭格林), being the vendor;
2. The Company, being the purchaser;
3. Shenzhen Fa Nuo Xin Neng Yuan Qi Che Holdings Company Limited* (i.e. the Target Company) (深圳法諾新能源汽車控股有限公司), being the target company; and
4. Shenzhen Haidemu Green Technology Company Limited* (深圳市海德姆環保科技有限公司) (i.e. SZHGT).

Assets to be acquired

The Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Equity Interest, being 55% of the equity interest in the Target Company, free from all encumbrances.

Consideration

The Consideration of HK\$41,000,000 shall be paid to the Vendor by the Company issuing the Convertible Bonds to the Vendor upon Completion.

The Consideration was determined after arm's length negotiation between the Vendor and the Purchaser having considered (i) the valuation of the fair value of the 100% equity interests in the Target Company of approximately HK\$77,000,000 as at the valuation date of 30 November 2019 as advised by an independent valuer; (ii) the audited financial statements of the Target Group for the period from 28 March 2018 to 31 December 2018; (iii) the business development and prospects of the Target Company; and (iv) the Guaranteed Profit as agreed between the Vendor and the Company. The Directors consider that the Consideration was fair and reasonable and in the interest of the Company and its Shareholders taken as a whole.

The valuation method used for the preliminary indicative value of the Target Company was based on market approach.

Profit guarantee

If the aggregate audited consolidated net profit after tax (excluding extraordinary or exceptional items of the Target Company) for the year ending 31 December 2020 (i.e. Actual Profit) shall be less than the Guaranteed Profit, the principal amount of the Convertible Bonds shall be reduced by the following amount forthwith according to the following formula:

$$\text{HK\$41,000,000} \times \frac{\text{Guaranteed Profit} - \text{Actual Profit}}{\text{Guaranteed Profit}}$$

Conditions precedent

Completion of the Agreement is conditional upon the followings:

- a. the Purchaser having completed and satisfied with the due diligence review conducted on the Target Company (including but not limited to legal, financial and tax position etc), and the PRC legal adviser appointed by the Company having issued the PRC legal opinion in respect of the Agreement and the Acquisition and the contents of which being satisfied by the Purchaser;

- b. the Purchaser having received and satisfied with the valuation report prepared by the valuer appointed by it and the value of the Equity Interest as estimated by the valuer being no less than HK\$41,000,000;
- c. the Warranties being true and accurate in all material respects as at the Completion Date and none of the Warranties having been breached by the Vendor;
- d. the Listing Committee of the Stock Exchange having granted the listing of and permission to deal with the Conversion Shares;
- e. the constitutional document having been amended to the satisfaction of the Purchaser and in accordance with the laws of the PRC, having been adopted by the Target Company and having been properly registered at relevant authorities;
- f. the Target Company having provided to the Purchaser the particulars of all bank accounts held by the Target Company, and the Vendor guaranteeing that those information are update, complete, true and accurate;
- g. the Acquisition having been registered and/or approved (as the case maybe) by the MOFCOM, SAFE and any other relevant governmental or regulatory authorities;
- h. the Vendor remaining the beneficial owner of all Material IP Rights without licensing those Material IP Rights to any other third parties, and the Vendor having submitted to the National Intellectual Property Administration of the PRC the application form relating to the transfer of all Material IP Rights to the Target Company;
- i. the Vendor and the Target Company having entered into the licensing agreement pursuant to which the Vendor shall unconditionally licence all Material IP Rights to the Target Company without consideration from the date of such agreement up to the date that the transfer of all Material IP Rights having completed; and
- j. the Purchaser having obtained all relevant approvals and consents (if required) for the Acquisition and those approvals and consents not being revoked.

If the above conditions have not been satisfied (or waived by the Purchaser except for conditions (d), (e), (f) and (g)) on or before 1 June 2020, the Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other save for any antecedent claims.

Conditions subsequent

Following Completion, as a condition subsequent, the Vendor shall procure that the transfer of all Material IP Rights from the Vendor to the Target Company having been completed and that the registration of such transfer at the National Intellectual Property Administration of the PRC having completed. If this condition subsequent have not been satisfied (or waived by the Purchaser) on or before 31 December 2020, the Agreement shall cease and determine, neither party shall have any obligations and liabilities towards each other save for any antecedent claims, and the Convertible Bonds shall become null and void in its entirety.

Completion

Completion shall take place on the Completion Date. Following Completion, the Target Company will become a direct non-wholly owned subsidiary of SZHGT and also an indirect non-wholly owned subsidiary of the Company whose financial results and position will be consolidated into the financial statements of the Company.

CONVERTIBLE BONDS

The Company will issue the Convertible Bonds in an aggregate principal amount of HK\$41,000,000 which, unless previously redeemed or converted and cancelled, will mature on the date falling four (4) years from the Issue Date. The principal terms of the Convertible Bonds are as follows:

Issue Price of the Convertible Bonds

100% of the aggregate principal amount of the Convertible Bonds, subject to the adjustment Mechanism relating to the profit guarantee under the Agreement.

Interest

The Convertible Bonds do not bear any interest.

Maturity Date

The date falling on the 4th anniversary of the Issue Date.

Transferability

The Vendor may assign or transfer the Bond in whole or in part (in whole multiples of HK\$1,000,000) of its outstanding principal amount to the transferee (other than a connected person (as defined in the GEM Listing Rules) of the Company) during the Conversion Period.

Ranking of the Convertible Bonds

The Convertible Bonds shall, upon their issuance, constitute a direct, unconditional, unsecured and unsubordinated obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) with all other unsecured and unsubordinated obligations of the Company.

Redemption by the Company

The Company may redeem the Convertible Bonds at 100% of the outstanding principal amount at any time from the Completion Date to the Maturity Date. Any Convertible Bonds outstanding on the Maturity date shall be redeemed by the Company at 100% of the outstanding principal amount.

Conversion Rights

Provided that any conversion of the Convertible Bonds does not result in the Company's non-compliance with the minimum public shareholding requirement under Rule 11.23 of the GEM Listing Rules or other similar provisions of the GEM Listing Rules, each holder of the Convertible Bonds has the right to convert whole or part of the outstanding principal amount of the Convertible Bonds (in the amount of HK\$1,000,000 or integral multiples thereof) during the period commencing from the Completion Date up to the Maturity Date.

Conversion Price

The Conversion Price of HK\$0.10 per Conversion Share represents:

- (1) a premium of approximately 122.22% over the closing price of HK\$0.045 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (2) a premium of approximately 132.56% over average closing price of HK\$0.043 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately preceding the Last Trading Day; and
- (3) a premium of approximately 138.10% over the average closing price of HK\$0.042 per Share as quoted on the Stock Exchange for the last ten (10) trading days immediately preceding the Last Trading Day.

The Conversion Price was determined after arm's length negotiations between the Company and the Vendor with reference to, among others, the prevailing market price of the Shares. The Conversion Price will be subject to adjustment for, among other matters, sub-division, consolidation and reclassification of Shares, issue of Shares in lieu of the whole or any part of a specifically declared cash dividend, capital distributions, issue of convertible securities, issue of new shares in discount, consideration issues and other dilutive events.

Ranking of Conversion Shares

The Conversion Shares will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of such Shares.

Listing

No application will be made for the listing of the Convertible Bonds.

Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares which may fall to be issued upon conversion of the Convertible Bonds.

EFFECT ON SHAREHOLDING STRUCTURE

The maximum of 410,000,000 Conversion Shares to be issued upon full conversion of the Convertible Bonds represent approximately:

- (a) 9.72% of the total number of existing issued Shares; and
- (b) 8.86% of the total number of issued Shares as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Bonds.

Set out below are (i) the shareholding structure of the Company as at the date of this announcement; and (ii) the shareholding structure of the Company immediately after full conversion of the Convertible Bonds (assuming no further Shares will be issued or repurchased from the date of this announcement up to the date upon which the Convertible Bonds are fully converted) are as follows:

Shareholders	As at the date of this announcement		Immediately after full conversion of the Convertible Bonds	
	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>
Wang Dequn (<i>Note</i>)	220,000,000	5.22	220,000,000	4.75
Song Wenxia	364,200,547	8.63	364,200,547	7.87
The Vendor	–	–	410,000,000	8.86
Public Shareholders	3,634,136,589	86.15	3,634,136,589	78.52
Total	<u>4,218,337,136</u>	<u>100.00</u>	<u>4,628,337,136</u>	<u>100.00</u>

Note: Wang Dequn is a non-executive Director of the Company.

GENERAL MANDATE TO ISSUE SHARES

The Conversion Shares will be issued under the General Mandate granted to the Directors at the last annual general meeting of the Company held on 20 September 2019. As at the date of this announcement, the Directors have not exercised the power to allot and issue any Shares pursuant to the General Mandate. Accordingly, as at the date of this announcement, the Company is entitled to issue up to 749,234,550 Shares pursuant to the General Mandate. As such, the Conversion Shares upon full conversion of Convertible Bonds will be issued under the General Mandate, and the issue of Conversion Shares is not subject to any approval by the Shareholders.

INFORMATION OF THE COMPANY, SZHGT, THE VENDOR AND THE TARGET COMPANY

Information of the Company

The Group principally engages in (i) provision of digital television broadcasting and advertising in Hong Kong and the PRC; (ii) money lending business in Hong Kong; and (iii) securities investments in Hong Kong.

Information of SZHGT

SZHGT is a limited liability company established under the laws of the PRC, the entire equity interest of which is indirectly held by the Company.

Following Completion, the Target Company will become a direct non-wholly owned subsidiary of SZHGT and also an indirect non-wholly owned subsidiary of the Company.

Information of the Vendor

The Vendor is a merchant.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Vendor is an Independent Third Party.

Information of the Target Company

The Target Company is a limited liability company established under the laws of the PRC on 28 March 2018 and is principally engaged in manufacturing and trading of new energy automobiles.

Set out below is the financial information of the Target Company for the period from 28 March 2018, the date of its establishment to 31 December 2018:

	As at 31 December 2018/ for the period from 28 March 2018 to 31 December 2018 (audited) <i>RMB'000</i>
Revenue	0
Net loss before taxation	184
Net loss after taxation	184
Net assets	9,816

REASONS FOR AND BENEFITS OF THE ACQUISITION

Whilst the Group remains focused on developing its existing businesses, it has been the business strategy of the Group to proactively seek potential investment opportunities to improve the business operation and financial position of the Group. The Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio into new line of business with growth potential and to broaden its source of income in order to enhance value of the Shareholders.

The Directors consider that the Acquisition is in line with the Group's business diversification strategy and represents an attractive investment opportunity of the Group to tap into green energy automobile business in the PRC with growth potential and to generate diversified income and additional cashflow through the Target Company.

As the Consideration for the Acquisition is satisfied through the issue of the Convertible Bonds, there shall be no immediate cashflow burden against the Company. In addition, the existence of the Guaranteed Profit mechanism will effectively reduce the Consideration of the Acquisition in the event that the profit generated by the Target Company does not meet the Guaranteed Profit.

The Directors are of the view that the terms and conditions of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE GEM LISTING RULES

As one or more than one of the applicable percentage ratio(s) in respect of the Acquisition are greater than 5% and all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to notification and announcement requirements under Chapter 19 of the GEM Listing Rules.

As Completion is subject to the fulfilment of a number of conditions, the Acquisition may or may not proceed to Completion. Shareholders of the Company and potential investors should exercise caution when dealing in the shares or other securities of the Company.

DEFINITIONS

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

“Acquisition”	the acquisition of the Equity Interest by the Company from the Vendor pursuant to the terms and conditions of the Agreement
“Agreement”	the sale and purchase agreement entered into by, among others, the Company and the Vendor dated 5 December 2019 pursuant to which the Company being the purchaser shall purchase the Equity Interest from the Vendor
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company” or “Purchaser”	Code Agriculture (Holdings) Limited, a company incorporated under the laws of Bermuda with limited liability, the Shares of which are listed on GEM (stock code: 8153)
“Completion”	completion of the transactions contemplated under the Agreement
“Completion Date”	the 10th Business Day following day that all conditions precedent to the Completion being satisfied (or waived, as the case maybe)

“connected person(s)”	has the meaning as defined under the GEM Listing Rules
“Consideration”	HK\$41,000,000, being the consideration for the sale of the Sale Shares, to be settled by the issuance of Convertible Bonds by the Company
“Conversion Price”	the initial conversion price of HK\$0.1 per Conversion Share
“Conversion Share(s)”	the Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the convertible bonds in the principal amount of HK\$41,000,000 to be issued by the Company in favour of the Vendor to satisfy the Consideration under the Agreement
“Director(s)”	director(s) of the Company
“Equity Interest”	55% of the entire equity interest in the Target Company, being the subject matter under the Acquisition
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guaranteed Profit”	HK\$10,000,000
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	a party which/who is not a connected person of the Company and is independent of the Company and its connected persons

“Issue Date”	the date of issuing the Convertible Bonds by the Company to the Vendor, being the Completion Date
“Last Trading Day”	5 December 2019, being the last trading day of the Shares prior to the release of this announcement
“Material IP Rights”	all intellectual property rights relating to the business of the Target Company (including all those related to automobile industry) owned by the Vendor
“Maturity Date”	the date falling on the 4th anniversary of the Issue Date
“MOFCOM”	Ministry of Commerce of the PRC
“MOU”	the non-legally binding memorandum of understanding dated 23 October 2019 entered into between the Company and the Target Company in relation to the Acquisition
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong and the Macau Special Administrative Region
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC
“Share(s)”	ordinary share(s) of HK\$0.0004 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SZHGT”	Shenzhen Haidemu Green Technology Company Limited* (深圳市海德姆環保科技有限公司), a limited liability company established under the laws of the PRC, the entire equity interest of which is indirectly held by the Company

“Target Company”	Shenzhen Fa Nuo Xin Neng Yuan Qi Che Holdings Company Limited* (深圳法諾新能源汽車控股有限公司), a limited liability company established under the laws of the PRC, the equity interest of which is held by the Vendor as to 85%, Mr. Pan Dai (潘岱) as to 5% and Mr. Xiang Tao (項濤) as to 10%
“Vendor”	Mr. Guo Gelin (郭格林), the registered and beneficial owner of 85% of the entire equity interest of the Target Company as at the date of this announcement and the vendor under the Acquisition
“%”	per cent.

By order of the Board
Code Agriculture (Holdings) Limited
Tsang King Sun
Executive Director

Hong Kong, 5 December 2019

As of the date of this announcement, the executive directors are Mr. Chow Chi Wah Vincent, Mr. Tsang King Sun, Mr. Wang Rongqian, Mr. Hu Chao; the non-executive directors of the Company are Mr. Qian Gang, Mr. Wang Dequn; and the independent non-executive directors of the Company are Mr. Lee Chi Hwa Joshua, Mr. Wong Ching Keung, Ms. Ng Yin Ling Elaine and Dr. Antonio Maria Santos.

This announcement, for which 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 herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website <http://www.hkgem.com> for at least 7 days from the date of its publication. This announcement will also be published on the Company’s website at <http://www.code-hk.com>.

* *The English translation of the Chinese name of the relevant entity included in this announcement is for identification and reference only, and such translation may not be accurate and such entity may not have an official English translation/version of its Chinese name.*