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COSLIGHT TECHNOLOGY INTERNATIONAL GROUP LIMITED

光宇國際集團科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1043)

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO THE DISPOSAL OF ENTIRE EQUITY
INTERESTS IN THE TARGET COMPANY**

PROPOSED DISPOSAL

On 20 December 2019 (after trading hours), Harbin Coslight Power (an indirect non-wholly owned subsidiary of the Company) as vendor and Kunyu (Dongying) entered into the Investment Agreement (as supplemented by the Supplemental Agreement entered into by the Vendor, Dongying Kunyu New Energy (a company controlled by Kunyu (Dongying)) as purchaser, Kunyu (Dongying) and Harbin Coslight Storage Battery (an indirect 97.35%-owned subsidiary of the Company) on the same date) pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to acquire the entire equity interests in the Target Company at the aggregate consideration of RMB860 million.

Upon completion of the Proposed Disposal, the Target Group will cease to be subsidiaries of the Company and its financial results will no longer be consolidated into the Group's financial statements.

* *For identification purpose only*

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as defined under the Listing Rules) for the Proposed Disposal as calculated under Rule 14.07 of the Listing Rules exceeds 75%, the Proposed Disposal constitutes a very substantial disposal for the Company under Rule 14.06(4) of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Agreements and the transactions contemplated thereunder. To the best of the Directors' knowledge, no Shareholder has a material interest in the Proposed Disposal which is different from other Shareholders and accordingly, no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Proposed Disposal at the SGM.

CIRCULAR

A circular containing, among others, further details relating to the Proposed Disposal together with a notice convening the SGM to be held to consider and, if thought fit, approve the Proposed Disposal contemplated under the Agreements will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

THE AGREEMENTS

Date

20 December 2019 (after trading hours)

Parties to the Investment Agreement

1. Harbin Coslight Power, a joint stock limited company established in the PRC, is principally engaged in the manufacture and sales of lithium-ion batteries and its accessories. It is an indirect 89.92%-owned subsidiary of the Company, as the Vendor; and

2. Kunyu (Dongying), a limited liability partnership established in the PRC which is ultimately beneficially owned by Mr. Shan Hui (單輝先生) as to 45.06% (of which 44.96% owned by himself and 0.10% owned through his wholly-owned company, Dongying Kunyu Business Administration), Mr. Wu Peng (吳鵬) as to 19.98%, Mr. Song Bai (宋柏) as to 11.32%, Mr. Liu Rong (劉榮) as to 9.99%, Mr. Liu Tie Jian (劉鐵建) as to 6.41%, Mr. Zhang Li Hui (張立輝) as to 2.95%, Mr. Qin Dong Nian (秦東年) as to 1.90%, Mr. Wang Hai Peng (汪海澎) as to 1.10%, Mr. Ning Xiao Dong (寧曉東) as to 0.50%, Mr. Wang Zhi Gang (王指剛) as to 0.50% and Mr. Li Jun Yi (李君毅) as to 0.30%, is principally engaged in the management of equity investment funds, equity management consultancy services, and corporate governance consultancy services, as the original purchaser.

Parties to the Supplemental Agreement

1. Harbin Coslight Power;
2. Kunyu (Dongying);
3. Dongying Kunyu New Energy, a limited liability company established in the PRC and is controlled by Kunyu (Dongying), is principally engaged in investment management, as the Purchaser designated by Kunyu (Dongying); and
4. Harbin Coslight Storage Battery, a joint stock limited company established in the PRC, is principally engaged in the manufacture and sales of SLA batteries. It is an indirect 97.35%-owned subsidiary of the Company, as the corporate guarantor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save that (i) the Purchaser is a company ultimately controlled by Mr. Shan Hui who was a former director of Coslight India Telecom Private Limited (a wholly-owned insignificant subsidiary (as defined under the Listing Rules) of the Company) prior to 15 June 2019; (ii) the minority shareholders of Kunyu (Dongying), namely Mr. Song Bai, Mr. Zhang Li Hui, Mr. Qin Dong Nian, Mr. Ning Xiao Dong and Mr. Wang Zhi Gang, each of them is an employee of the Group who will be part of the human resources to be transferred to the Target Group as part of the Reorganisation, the Purchaser together with its ultimate beneficial owner(s) are Independent Third Parties.

Assets to be Disposed of

The entire equity interests in the Target Company, of which 90% of the equity interests of the Target Company shall be disposed of under the Initial Disposal as soon as practicable once the Conditions are fulfilled and the remaining 10% of the equity interests of the Target Company shall be disposed of within two years from the date of the Agreements.

Consideration and Payment Terms

The Consideration payable by the Purchaser to the Vendor shall be an aggregate of RMB860 million, of which the consideration for the 90% and 10% of the equity interests of the Target Company shall be RMB774 million and RMB86 million, respectively. The consideration for the Initial Disposal shall be payable by the Purchaser to the Vendor in accordance with the schedule below:

- (i) RMB387 million, being 50% of the consideration for the Initial Disposal, shall be payable by no later than 31 December 2019, of which RMB25 million had been paid to the Vendor as deposit for the Proposed Disposal and RMB30 million had been advanced to the Vendor as an interest free loan, respectively, shall both be applied as part of the Consideration;
- (ii) RMB309.6 million, being 40% of the consideration for the Initial Disposal, shall be payable by no later than 31 January 2020; and
- (iii) RMB77.4 million, being 10% of the consideration for the Initial Disposal, shall be payable by no later than 28 February 2020.

The consideration for the remaining 10% of the equity interests of the Target Company of RMB86 million shall be payable to the Vendor within a period of two years from the date of the Agreements.

The Consideration was negotiated and determined after arm's length negotiation between the parties with reference to various factors, including, inter alia, (i) the historical financial position and performance of the Businesses to be injected into the Target Group; (ii) the reasons and benefits to be derived by the Group from the Proposed Disposal as set out in the section headed "Reasons and Benefits of the Proposed Disposal" below; and (iii) the non-compete undertaking (details of which are set out in the section headed "Non-compete Undertaking" below) required to be provided by the Group. Each of the factors mentioned above are equally weighted in determination of the Consideration.

While the factors which the Purchaser had taken into account when determining the amount of the Consideration to offer as well as the reason for the substantial premium over the net assets value of Target Group were not revealed to the Vendor, taking into account the above factors, the fact that the Consideration of RMB860 million represents a considerable amount of premium over the unaudited net assets value of the Target Group as at 30 June 2019 and also the fair value of the Target Group of approximately RMB729 million (which can better reflect the true market value of the Target Group than the fair value valuation), the Directors are of the view that the Consideration offered by the Purchaser is acceptable and financially rewarding to the Group, and is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

Conditions Precedent

Completion of the Proposed Disposal is conditional upon, among other things, the fulfilment of the following Conditions:

- (a) the approval from the Shareholders at the SGM approving the Agreements and the transactions contemplated thereunder as required by the Listing Rules (if applicable);
and
- (b) the completion of the Reorganisation.

Completion

Upon fulfilment of the Conditions and the payment of the consideration for the Initial Disposal, the Vendor shall transfer 90% of the equity interests of the Target Company to the Purchaser as soon as practicable and file for the transfer of title to the Purchaser with the relevant PRC government authority.

Within two years from the date of the Agreements, at the request of the Purchaser, the Vendor shall further transfer the remaining 10% of the equity interests in the Target Company to the Purchaser. The splitting arrangement was a term incorporated in the 1st draft of the Investment Agreement circulated by the Purchaser and the Company did not have strong rejection to that taking into account that (i) the Purchaser is willing to pay up to 50% of the consideration for the Initial Disposal to the Vendor on or before 31 December 2019 prior to the completion of the Initial Disposal; (ii) the splitting arrangement is better than a deferred payment arrangement as the Group will still be the legal and beneficial owner of the 10% equity interests of the Target Group prior to receipt of the payment of the consideration; and (iii) the Purchaser is bound to acquire the 10% equity interests of the Target Group within the scheduled two-year period.

If the Conditions have been fulfilled, but Completion does not take place due to the default of the Purchaser, the Vendor shall have right to forfeit the deposit in the amount of RMB25 million; while if the Conditions have been fulfilled, but Completion does not take place due to the default of the Vendor, the Vendor shall refund the said deposit together with a sum equivalent to the deposit (for that portion of deposit as compensation to the Purchaser).

Upon completion of the Initial Disposal, the Target Group will cease to be subsidiaries of the Company and will be owned as to 90% by the Purchaser and 10% by the Vendor, and the financial results of the Target Group will no longer be consolidated into the Group's financial statements.

Corporate Guarantee

Pursuant to the Agreements, upon completion of the Initial Disposal, the Vendor shall further procure Harbin Coslight Storage Battery to provide corporate guarantee in favour of the Purchaser for any liability with amount exceeding RMB5 million (per annum) arising from products sold prior to the completion of the Initial Disposal to be assumed by the Vendor.

As (i) the Directors are confident in the quality of the products sold by the Group and believe that the chance for having product claims of more than RMB5 million (per annum) is little; and (ii) the Purchaser would not have entered into the Agreements without any security or guarantee provided by the Group (which the Company has successfully bargained to merely provide the corporate guarantee under the Supplemental Agreement instead of provision of equity pledge as originally contemplated under the Investment Agreement), the Directors are of the view that it is in the interests of the Company and the Shareholders to agree to the provision of corporate guarantee.

Non-compete Undertaking

Pursuant to the Agreements, the Vendor further agreed that after completion of the Proposed Disposal, it shall not, and shall procure its associates not to, directly or indirectly, without the prior written approval of the Purchaser:

- (a) invest in any company which is engaged in any business which may be in competition with the same or similar business (storage lithium batteries business) of the Target Company and Harbin Coslight New Energy; and
- (b) employ or assist to employ, any current and former employees (unless the termination of such former employees have been effected for more than a period of two years) of the Target Company and Harbin Coslight New Energy or jointly with the said employees, to engage in any business which may be in competition with same or similar business (storage lithium batteries business) of the Target Company and Harbin Coslight New Energy.

The Purchaser has undertaken to procure that the Target Group shall not be engaged in any lithium power batteries business in India.

The Vendor agreed to give the above non-compete undertaking because the Purchaser would not enter into the Agreements or would not agree to the Consideration without the same as such non-compete undertaking constitutes one of the key reasons why the Purchaser is willing to pay the Consideration of RMB860 million despite the fact that net assets value of the Target Group as at 30 June 2019 was only of approximately RMB93 million. In the circumstances, the Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to agree to provide such non-compete undertaking to the Purchaser.

As the Purchaser has requested the non-compete undertaking restricting the Group's engagement in the storage lithium battery business, the Vendor then counter proposed, and after further negotiation between the parties, it is agreed that the Target Group shall be restricted from engaging in the lithium power battery business in India after the Proposed Disposal.

The Group attaches great importance to the market in India taking into account its substantial growth potential (i.e. India has a large area, a large population and its economic development is relatively backward). It is expected that the future market demand for lithium power batteries (electric cars and electric bicycles) will be huge, which the Board is optimistic in this market's future development. Further, the Group has developed in the Indian market for a long period of time with solid foundation, which it is keen to have the said non-compete undertaking to protect this market.

Other terms

Pursuant to the Agreements, the Vendor shall give a two-year rent-free period to Harbin Coslight New Energy for the continued use of certain plants and facilities where the storage lithium batteries business operates.

Harbin Coslight New Energy can continue to use the name "Coslight" at nil consideration after completion of the Initial Disposal to ensure the smooth transfer of the key customers and suppliers from the Group to Harbin Coslight New Energy.

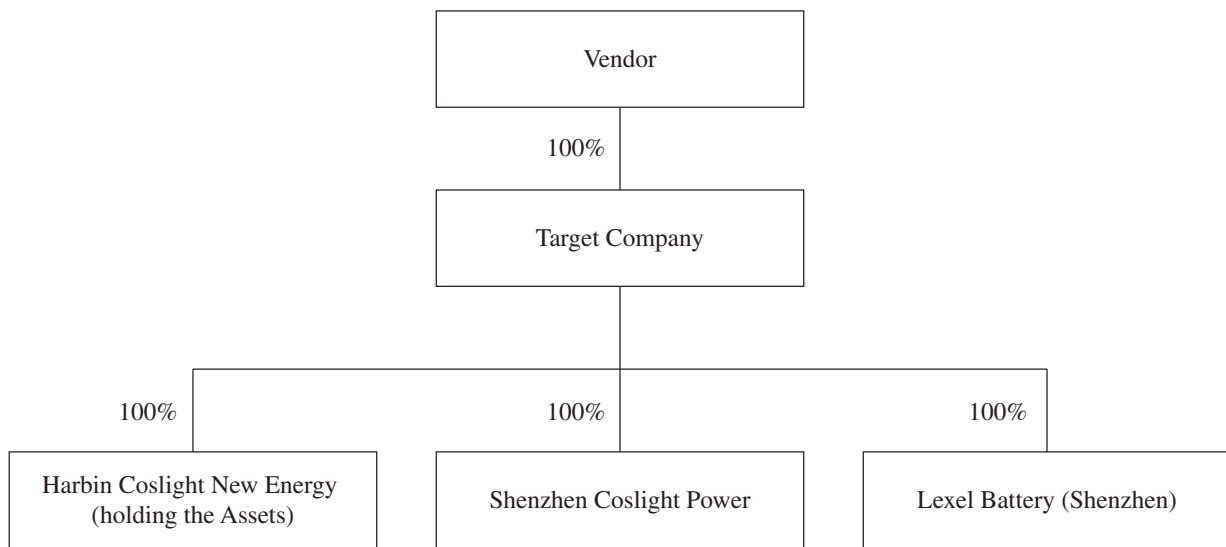
The Vendor shall after completion of the Initial Disposal, transfer all the inventories (including raw materials, semi-finished products and products relating to the Businesses) at cost to Harbin Coslight New Energy.

INFORMATION OF THE TARGET GROUP

Reorganisation

Pursuant to the Agreements, the Vendor has undertaken to procure a series of reorganisation steps under which the Vendor (i) has established the Target Company and Harbin Coslight New Energy; and (ii) shall effect the transfer of (a) the Assets to Harbin Coslight New Energy and (b) the entire equity interests in Harbin Coslight New Energy, Shenzhen Coslight Power and Lexel Battery (Shenzhen) to the Target Company.

Set out below is the shareholding structure of the Target Group upon completion of the Reorganisation:



The Target Group is restructured to be principally engaged in the businesses of manufacturing, research and development and sales of storage lithium batteries and nickel batteries.

Details of each members of the Target Group are set out as follows:

Target Company

The Target Company is a limited company newly established in the PRC on 26 August 2019 as the immediate holding company of the Target Group.

Harbin Coslight New Energy

Harbin Coslight New Energy is an investment holding company newly established by the Vendor in the PRC on 5 July 2019 for the purpose of holding the Assets.

Shenzhen Coslight Power

Shenzhen Coslight Power is a company established in the PRC in May 2013 and a direct wholly-owned subsidiary of the Vendor. It does not have material business activities and just provides lithium batteries processing and assembling services required by the Vendor. As its operation scale is small and it is mainly engaged in provision of processing services, the financial information of Shenzhen Coslight Power was presented under the “Others” segment as at 30 June 2019.

Lexel Battery (Shenzhen)

Lexel Battery (Shenzhen) is a company established in the PRC with limited liability in October 1997 and currently a direct wholly-owned subsidiary of Harbin Coslight Storage Battery which is principally engaged in the manufacture and sale of nickel batteries, the financial information of Lexel Battery (Shenzhen) was presented under the “nickel batteries” segment as at 30 June 2019. The entire nickel batteries business forms part of the Target Group subject to the Proposed Disposal, as Lexel Battery (Shenzhen) represents the entire “nickel batteries” segment of the Group.

Despite that the non-compete undertaking does not restrict the Company to further engage/develop in the “nickel batteries” business, it is intended that the Company would not continue to engage in the nickel batteries business immediately after the Proposed Disposal taking into account the Group’s nickel batteries products do not have a large market share and the low profit margin contribution to the Group from this business segment. As such, the Group does not intend to allocate resources in the “nickel batteries” business in the near future.

Financial Information of Members of the Target Group

Set out below is the unaudited financial information of members of the Target Group for the years ended 31 December 2018 and 2017, and the six months ended 30 June 2019, respectively:

	Year ended 31 December		Six months ended
	2018	2017	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(approximate)	(approximate)	(approximate)
	(unaudited)	(unaudited)	(unaudited)
Revenue	917,917	343,870	344,697 ¹
Net (loss)/profit before taxation ²	164,585	13,673	(6,315)
Net (loss)/profit after taxation	138,093	10,523	(6,954)

Notes:

- As disclosed in the interim report of the Company for the six months ended 30 June 2019, the revenue of Lexel Battery (Shenzhen) (presented under “Nickel Batteries” segment), the revenue of Shenzhen Coslight Power (presented under “Others” segment) and the revenue attributable to the Assets (presented under “Lithium-ion Batteries” segment) was approximately RMB60.958 million, approximately RMB1.294 million and approximately RMB274.07 million, respectively, which in aggregate amounted to approximately RMB336.322 million, which is close to approximately RMB344.697 million as disclosed above. The variance was due to audit adjustments (i.e. reverse of inter-segment sale eliminations and cut-off adjustment).

2. The fluctuations in the Target Group's net profits/loss for the years ended 31 December 2017 and 2018 and for the six months ended 30 June 2019 were principally due to change in gross margins contributed by drop in sales price of storage lithium batteries with limited reduction in production cost as well as change in proportion of sales contributed by different geographical location of customers (with different gross margins, i.e. from higher to lower – South Africa, South Korea, India and Vietnam) in these periods:
- (i) for the year ended 31 December 2017, for the purpose of expansion of its market share in Vietnam, the Group provided greater discount to new customer in Vietnam (with negative gross margin generated from this geographical location), which seriously affected the gross margin. Also, the proportion of sales contributed by customers in India decreased in 2017 which seriously affected the volume of sales and the Group was unable to enjoy the economies of scale in production resulting in a higher production cost per unit. Also, the sales price of the storage lithium batteries demonstrated a decreasing trend;
 - (ii) for the year ended 31 December 2018, the sales contributed by customers in India reached record high so the Group enjoyed the economies of scale in production resulting in a lower production cost per unit with improved gross margin when compared to the year in 2017, despite the continuous decrease in sales prices of the storage lithium batteries; and
 - (iii) for the six months ended 30 June 2019, the sales price of the storage lithium batteries further decreased by more than approximately 20% when compared to the price in 2018, the proportion of sales contributed by customers in India decreased while the same from customers in Vietnam (with negative gross margin) increased to approximately 30% (versus approximately 16% in 2017) and increasing production costs per unit, resulting in a net loss position for this period.

The unaudited combined total assets and net assets of the Target Group as at 30 June 2019 were approximately RMB232 million and RMB93 million, respectively.

INFORMATION OF THE GROUP

The principal activities of the Group are the research and development, manufacture and sales of battery products and related accessories and the operation, research and development of online games. As a leading cell and battery manufacturer in the PRC, the primary product of the Group is battery, which is classified into three major categories: SLA batteries, lithium-ion batteries and nickel batteries.

- **SLA batteries and related accessories – manufacture and sale of SLA batteries and related accessories**

The Group specialized in the production of fixed-valve regulated SLA battery products which are mainly used as standby power for telephone and telecommunications exchange stations and power control stations and can also be used on electric bicycles.

Gross margin of batteries for telecommunication base stations was put under pressure due to keen competition among peers in the industry and the rise in production costs and the increase in price of the main raw materials for the production of SLA battery products. The Group has begun to transform the SLA battery production facilities and workshops in Harbin into corresponding parts and supporting facilities suitable for the production of lithium power battery to cope with the huge future demand for lithium power battery and to reduce production costs, so as to enhance the competitiveness of power battery products.

Despite the above, the manufacture and sale of SLA batteries and related accessories will still be an important business segment of the Group, due to the increasingly stringent approval process for production of SLA batteries (which nearly no new production permit will be issued by the government) and the increasing demand for batteries with high performance and quality standards and the continued emphasis on environmental protection in the manufacturing process had already adversely affected the operation of relatively small SLA batteries manufacturers and therefore offer more opportunities for established market leaders like the Group in the PRC and also in India.

- **Lithium-ion batteries – manufacture and sale of lithium-ion batteries**

Lithium-ion batteries are secondary cells which are rechargeable. It can be formed into many shapes which makes them ideal for portable consumer products items such as laptops, smartphones, etc with high energy-densities and do not require priming when first used and have a low self-discharge.

Lithium polymer battery

Lithium-ion batteries have become the core business segment of the Group since 2010, as driven by strong demand and rapid development for smartphone and tablet personal computers, in particular, cell phones lithium-ion batteries and lithium polymer batteries. Despite the continuous increase in demand for lithium polymer batteries, the profit margin narrowed due to the increase in the cost of raw materials and wages and keen competition in this thin-margin industry. The Group has no longer been engaged in any manufacture and sale of lithium polymer battery business after the disposal of various subsidiaries engaged in this business in 2017 and 2018.

Power battery

The Group has invested resources on the R&D of lithium ferrite batteries (lithium power batteries) which are specially designed for bike, electric bicycles, and/or electric vehicles (EV battery) and for power station since 2007. The same has been launched to the market since 2008 initially for bikes and electric bicycles and then for electric vehicles since 2012.

The Group has strategically tied up stronger partnerships with domestic and international carriers in relation to the provision of a wide range of system solutions for power battery, which replace traditional lead-acid battery products with the outstanding advantages of clean energy, environment friendly, small in size, light in weight, long life, etc. in recent years. The Group's power battery products, include lithium ferrite phosphate batteries and ternary power batteries, are applicable to different types of electric vehicles, including pure electric passenger vehicles, hybrid passenger vehicles, electric vehicles and pure electric sedans; and electric bicycles and electric motorcycles. The Group provides complete sets of battery solutions for electric vehicles, including cells and battery management system, targeting larger-scale electric carmakers.

Driven by China's new energy policy, the demand for new energy electric vehicles is expected to continue to grow, the EV battery has become the growth engine of the Group.

Storage lithium battery

In respect of the applications in telecommunications base stations and energy storage systems, storage lithium ferrite batteries are more suitable for providing continuous and reliable power supply in regions where there is an unstable supply of electricity, in mountainous areas and under high temperature environment, when compared to traditional lead-acid battery products. The major customers of the Group's storage lithium battery for communication were the telecom operators and mobile operators in India, Vietnam, South Africa, South Korea, Russia and China.

The gross margin of storage lithium battery for communication manufactured by the Group was put under pressure due to keen competition among peers in the industry, the significant drop in sale price of nearly 50% in 2019 when compared to the sale price in 2016 and longer account receivable period. It also comes along with increasing cost pressure arising from the need for substantial capital investment for this business operation as it needs to commit resources to continuously expand its production capacity with high debt ratio. As such, the Group decided to further shift its focus from the manufacture and sales of storage lithium batteries to lithium power batteries as described above, taking advantage of the increasing demand for new energy electric vehicles driven by the China new energy policy, by disposing of the Target Group.

- **Nickel batteries – manufacture and sale of nickel batteries**

Nickel batteries are small-size and sealed rechargeable nickel batteries, such as AA and AAA size rechargeable batteries with characteristics of high energy provision, long life, etc. The nickel batteries of the Group are produced by Lexel Battery (Shenzhen), which is the sole holder of the invention patent of ultra-low self-discharge nickel batteries in China. The major customers for the Group's nickel batteries are the enterprises in China, Hong Kong, Japan, East of Asia, European and the United States of America.

Save for members of the Target Group, the Group does not have any other subsidiaries which will be principally engaged in the storage lithium batteries and nickel batteries businesses.

Set out below is the unaudited financial information of the other existing businesses of the Group for the six months ended/as at 30 June 2019:

	SLA batteries and related accessories <i>(Note 1)</i> <i>RMB'000</i>	Lithium-ion batteries (excluding storage lithium batteries) <i>(Note 2)</i> <i>RMB'000</i>	Online game services <i>(Note 3)</i> <i>RMB'000</i>	Others <i>(Note 4)</i> <i>RMB'000</i>
Revenue	231,126	108,157	94,291	83,938
(Loss)/profit before tax	(20,406)	(11,110)	80,739	(7,311)
Assets	1,718,115	3,599,133	4,230	638,662

Notes:

1. The principal activities of this segment are: manufacture and sale of SLA batteries and related accessories.
2. The principal activities of this segment (excluding the storage lithium batteries business) are: manufacture and sale of lithium-ion power batteries; and assembling of lithium battery shell.
3. The principal activities of this segment are: provision of online game services.
4. The principal activities of this segment are: manufacture and sale of signal strength systems, electric and automation system, motor vehicle and pharmaceutical products.

As at the date of this announcement, the Company does not have any intention or plan to downsize, cease or dispose of any of its existing businesses, save for the Proposed Disposal.

FINANCIAL EFFECT OF THE PROPOSED DISPOSAL

It is expected that the Group will record a book gain (before taxation) of approximately RMB740 million as a result of the Initial Disposal which represents the difference of (a) the sum of (i) the consideration for the Initial Disposal of RMB774 million and (ii) the fair value attributable to 10% of the Target Group of approximately RMB59 million* (as valued by Ascent Partners Valuation Service Limited, an independent valuer based on market approach) and (b) the combined unaudited net assets values of the Target Group as at 30 June 2019 of approximately RMB93 million.

The expected book gain (before taxation) as a result of the disposal of the remaining 10% of the equity interests of the Target Group is expected to be approximately RMB27 million (being the difference of the consideration of RMB86 million less the fair value attributable to 10% of the Target Group of approximately RMB59 million).

* *The fair value attributable to 10% equity interests of the Target Group is not proportioned by the 100% equity interests of the Target Group because there is a control premium applied in the valuation of 90% equity interests of the Target Group, which constitutes controlling interest. In comparison, no control premium is applied in the valuation of 10% equity interests of the Target Group.*

Shareholders should note that the above figures are for illustrative purpose only. The actual gain on the Proposed Disposal may be different from the above and will be determined based on the financial position of the Target Group on the date of completion of the Proposed Disposal and the review by the Group's auditors upon finalization of the consolidated financial statements of the Group.

USE OF PROCEEDS

The Company intends to use the net proceeds from the Proposed Disposal of approximately RMB858 million for the following purposes:

- (a) approximately RMB95 million for settlement of tax related to the Proposed Disposal;
- (b) approximately RMB350 million for settlement of outstanding payments to suppliers;

- (c) approximately RMB60 million for the repayment of the Company's outstanding bank borrowings;
- (d) approximately RMB75 million for market expansion; and
- (e) approximately RMB278 million for general working capital of the Group.

REASONS FOR AND BENEFIT OF THE PROPOSED DISPOSAL

As disclosed in the 2019 interim report of the Company, the Group has a relatively low level of bank balances of approximately RMB154,817,000 compared to bank borrowings of approximately RMB1,176,923,000 as at 30 June 2019. Also, the Group's gearing ratio, defined as the ratio between sum of bank borrowing and obligations under finance leases or lease liabilities and shareholders' equity, was 50%; and the current ratio of the Group, represented by a ratio between current assets over current liabilities, reached 100% as at 30 June 2019.

Having considered (i) the high gearing ratio of the Group; and (ii) the uncertain outlook of the Chinese economy, particularly the possible fall-outs from the US-China trade war and the continuing structural weaknesses in the Chinese economy, the Board considers that it would be prudent for the Group to trim its assets and reduce its gearing as and when the opportunity arises; thus improving the Group's resilience to further downturns in the economy. The Board believes that it is a good opportunity to dispose of the Target Group at such a good price which would also allow the Group to repay its outstanding payments to suppliers and outstanding bank loans and therefore strengthen the liquidity and overall financial position of the Group

Further, as mentioned above, the Company is of the view that there is keen competition among peers in the industry which led to the significant drop in sale price of the storage lithium batteries of nearly 50% in 2019 when compared to the same in 2016. If the Group would like to maintain its position in this industry, it needs to commit further financial resources to continuously upgrade its equipment and expand its production capacity, which is difficult to achieve taking into account the Group's existing financial situation (high debt ratio). In addition, the long account receivable collection period for this business segment (i.e. up to nine months to a year) also exacerbated financial strain faced by the Group, as it needs to incur substantial costs for raw materials and the expansion costs to operate in advance as mentioned above.

The Company is of the view that the competition in the industry will only become more and more intense in future, resulting in thinner gross margin for products manufactured by the Group. As a result, the Board is not optimistic about the future prospect of the Target Group.

The lithium power battery, especially the electric vehicle lithium power battery, has always been the top priority of the Company's future development, because the Company believes that the lithium-ion battery is still the preferred power source for new energy vehicles for a long time. The Company is convinced that the China's government policy for the development of new energy vehicles will not be changed, and its determination to use the new energy to achieve "curve overtaking" in the auto industry will not be changed, and lithium power batteries will have its broad development prospects.

As such, the Company considers that the Proposed Disposal represents an optimal opportunity for the Group to realise the value of its investments in the Businesses and would benefit the Group by strengthening the liquidity and the overall financial position of the Group by reducing its financial pressure substantially and immediately, and allowing the Group to focus its resources in its other existing businesses (in particular, the lithium power batteries business) which are considered to be more viable, sustainable and with growth potentials and increase the Company's ability to repay its debt, lower the Company's debt-to-assets ratio. All these will help improve the financial performance and position of the Company, enhance the core competitiveness and the comprehensive efficiency of the Company.

The Directors consider that the terms of the Agreements are fair and reasonable and are on normal commercial terms, and the Proposed Disposal is in the best interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Proposed Disposal as calculated under Rule 14.07 of the Listing Rules exceeds 75%, the Proposed Disposal constitutes a very substantial disposal for the Company under Rule 14.06(4) of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Agreements and the transactions contemplated thereunder. To the best of the Directors' knowledge, no Shareholder has a material interest in the Proposed Disposal which is different from other Shareholders and accordingly, no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Proposed Disposal at the SGM.

GENERAL

A circular containing, among others, further details relating to the Proposed Disposal together with a notice convening the SGM to be held to consider and, if thought fit, approve the Proposed Disposal contemplated under the Agreements will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions have the following meanings ascribed to them respectively:

“Agreements”	the Investment Agreement and the Supplemental Agreement
“Assets”	certain tangible and intangible assets (such as storage lithium batteries related trademarks, patents, proprietary technologies and results of research and development), business resources (such as existing relationships with customers, suppliers, and sales networks) and human resources (including members of mid-senior management employees and other executives), which mainly form part of the storage lithium batteries business of the Businesses, to be injected into Harbin Coslight New Energy pursuant to the Reorganisation
“Board”	the board of Directors

“Businesses”	the businesses of manufacturing, research and development and sales of storage lithium batteries and nickel batteries which belong to the “lithium-ion batteries” segment and the “nickel batteries” segment of the Group, respectively
“Company”	Coslight Technology International Group Company Limited (光宇國際集團科技有限公司*), a limited company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“Conditions”	the conditions precedent to the Proposed Disposal as set out in the sub-section headed “Conditions Precedent” in this announcement
“connected person(s)”	has the same meaning ascribed to it in the Listing Rules
“Consideration”	the total consideration in the sum of RMB860 million for the Proposed Disposal as contemplated under the Agreements
“Director(s)”	the director(s) of the Company
“Dongying Kunyu Business Administration”	東營昆宇企業管理有限公司 (Dongying Kunyu Business Administration Company Limited*), a limited liability company established under the laws of the PRC and is wholly owned by Mr. Shan Hui
“Group”	the Company and its subsidiaries
“Harbin Coslight New Energy”	哈爾濱光宇新能源有限公司 (Harbin Coslight New Energy Company Limited*), a limited liability company newly established by the Group under the laws of the PRC for the purpose of holding the Assets

“Harbin Coslight Storage Battery”	哈爾濱光宇蓄電池股份有限公司 (Harbin Coslight Storage Battery Company Limited*), a joint stock limited company established under the laws of the PRC and an indirect 97.35%-owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person or company and their respective ultimate beneficial owner(s), to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Initial Disposal”	the initial disposal of the 90% equity interests of the Target Company by the Vendor to the Purchaser pursuant to the terms of the Agreements
“Investment Agreement”	the agreement dated 20 December 2019 entered into between the Vendor (a non-wholly owned subsidiary of the Company) and Kunyu (Dongying) (the original purchaser) in relation to, inter alia, the Proposed Disposal
“Kunyu (Dongying)”	昆宇(東營)股權投資合夥企業(有限合夥)(Kunyu (Dongying) Equity Investment Partnership (Limited Partnership)*), a limited liability partnership established in the PRC which is ultimately beneficially controlled by Mr. Shan Hui (單輝先生)
“Lexel Battery (Shenzhen)”	深圳市力可興電池有限公司 (Lexel Battery (Shenzhen) Company Limited*), a limited liability company established under the laws of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China

“Proposed Disposal”	the proposed disposal of the entire equity interests in the Target Company pursuant to the terms of the Agreements
“Purchaser” or “Dongying Kunyu New Energy”	東營昆宇新能源科技有限公司 (Dongying Kunyu New Energy Technology Company Limited*), a limited liability company established under the laws of the PRC, being the purchaser designated by Kunyu (Dongying) pursuant to the Agreements, which is beneficially owned by Kunyu (Dongying) as to approximately 56.37%, 東營盛聯新動能股權投資基金合夥企業 (有限合夥) (Dongying Shenglian New Kinetic Energy Equity Investment Partnership (Limited Partnership)*) as to approximately 43.61% and Dongying Kunyu Business Administration as to approximately 0.02%, respectively
“Reorganisation”	the implementation of the transactions and actions required to transfer the Businesses to the Target Group in accordance with the terms of the Agreements as described in the subsection headed “Reorganisation” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened and held to consider and, if thought fit, to approve, among other things the Proposed Disposal contemplated under the Agreements
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Coslight Power”	深圳光宇電源科技有限公司 (Shenzhen Coslight Power Technology Company Limited*), a limited liability company established under the laws of the PRC
“SLA”	sealed-lead acid

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the agreement dated 20 December 2019 entered into amongst the Vendor (a non-wholly owned subsidiary of the Company), Kunyu (Dongying) (a party to the Investment Agreement), the Purchaser (a company controlled by Kunyu (Dongying)) and Harbin Coslight Storage Battery (an indirect 97.35%-owned subsidiary of the Company) to amend certain terms of the Investment Agreement
“Target Company”	東營昆宇電源科技有限公司 (Dongying Kunyu Energy Technology Company Limited*), a limited liability company newly established under the laws of the PRC as the holding company of the Target Group
“Target Group”	the Target Company, Harbin Coslight New Energy, Shenzhen Coslight Power and Lexel Battery (Shenzhen)
“Vendor” or “Harbin Coslight Power”	哈爾濱光宇電源股份有限公司 (Harbin Coslight Power Company Limited*), a joint stock limited company established in the PRC and an indirect non-wholly owned subsidiary of the Company, being the vendor under the Agreements
“%”	per cent

By Order of the Board
Coslight Technology International Group Limited
SONG Dian Quan
Chairman

Hong Kong, 20 December 2019

As at the date of this announcement, the executive Directors are Mr. SONG Dian Quan, Ms. LUO Ming Hua, Mr. LI Ke Xue, Mr. XING Kai, Mr. ZHANG Li Ming and Mr. LIU Xing Quan; and the independent non-executive Directors are Mr. GAO Yun Zhi, Mr. LI Zeng Lin and Ms. ZHU Yan Ling.